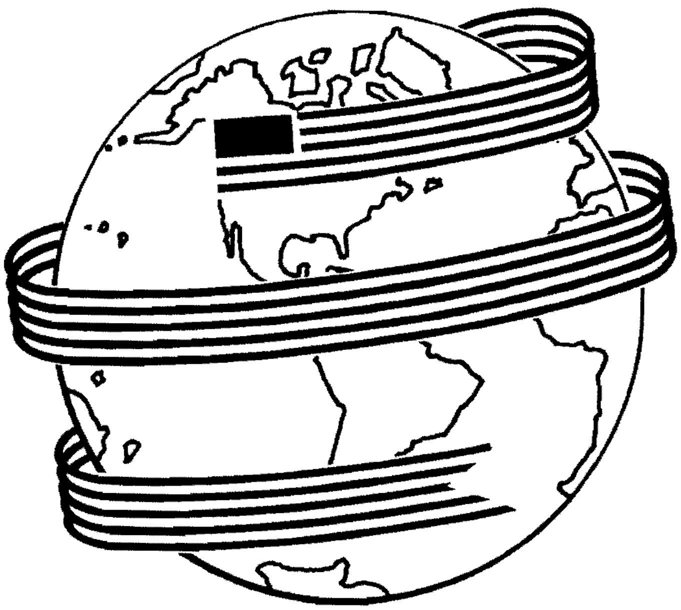
NEW REALITIES:

TOWARD A PROGRAM OF EFFECTIVE COMPETITION



The National Commission on Agricultural Trade and Export Policy

Final Report
to the President and Congress

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AGGRESSIVE ACTION TO MEET AND COUNTERACT THE EFFECTS OF UNFAIR FOREIGN TRADE PRACTICES

POLICY STATEMENT

American agriculture is currently under unprecedented assault by foreign governments employing aggressive and unfair trade practices. The United States government must take a far stronger position on matters of trade. Retaliatory capabilities of the United States government should be enhanced, and all effective means employed to counter the disruptive effect of foreign export subsidies, nontariff and tariff trade barriers, and unfair import competition. Management of currently authorized export enhancement and import protection programs should be improved to safeguard U.S. jobs and enhance long-term U.S. opportunities in world markets.

Progress toward the goal of fair world trade has been substantially eroded in recent years as a consequence of a worldwide escalation of unfair trade practices.

In many instances, and for most commodities and products, there is an absence of free markets in world agriculture. Policies of government, rather than market forces, increasingly dictate the terms and conditions under which competition takes place. Trade barriers beget trade barriers. Unfair import competition begets protectionism. There are always many more losers than winners in a trade war.

Avoidance of trade disputes requires that international rules governing agricultural trade be updated and clarified. Established procedures for policing violations of such rules need strengthening and streamlining. International cooperation is urgently required to:

- **Stem the tide of protectionist sentiment at home and abroad;**
- **Open markets for basic and value-added agricultural commodities and products;**
- **Limit import restrictions, including arbitrary and capricious quality and health regulations that represent non-tariff trade barriers;**
- **Limit the use of export subsidies and other predatory export trade practices; and**
- **Improve GATT processes and procedures to provide for stricter discipline and enforceability.**

RECOMMENDATIONS

The Commission recommends:

1. **Automatic retaliation under Section 301 of the Trade Act of 1974 in the event of unsatisfactory settlement of cases subject to petition under Section 301.**
2. **Full utilization of all resources and programs of the Federal government designed to combat unfair export competition and foreign trade barriers.**
3. **The President be authorized to enter into a new round of bilateral and multilateral negotiations to improve conditions affecting U.S. agricultural trade.**
4. **GATT be substantially reformed to provide for a clarification of GATT rules, expeditious response to violations of such rules, and stricter enforceability of GATT findings.**
5. **The United States retain appropriate safeguards and retaliatory capabilities to enable it to aggressively pursue trade reform and protect domestic industries damaged by unfair import competition.**

Retaliation Under Section 301

Retaliatory powers of the U.S. government should be enhanced to enable industries to obtain relief under Section 301 and to stimulate greater cooperation towards dispute settlement within the GATT framework. **The U.S. Trade Representative (USTR) should be required to take retaliatory steps to counter the economic impact of unfair trade practices within six months of the filing of Section 301 petition,** except upon (a) determination by USTR that action with respect to the petition is unwarranted; (b) determination by appropriate and binding GATT mechanisms that the U.S. posi-

tion is unsubstantiated; or (c) agreement by the offending country to eliminate such practice. Such an expedited timetable is feasible particularly if reform of GATT is achieved, as elsewhere recommended by the Commission.

USTR should be required to self-initiate Section 301 cases upon evidence of unfair trade practices and without petition of affected domestic industries. Enhanced unfair trade monitoring capabilities should be provided to the U.S. Department of Agriculture to ensure that all unfair trade practices and export subsidies are subject to retaliation under Section 301.

Utilization of Government Programs

Unfair export practices of other nations should be directly countered using all available authority, including export payment in kind. In more extreme cases, variable import restrictions and, preferably, adjustments in U.S. export restitution policy may be required to reward nations cooperating in efforts to lower trade barriers and to take action against nations which continue to employ predatory or unfair trade practices.

Assistance under such programs should be provided to all commodities and products that face competition by subsidized foreign exports, with priority consideration given to those commodities and products facing stiffest unfair competition.

The United States government should directly retaliate against the use by foreign governments of unfair and nontariff trade barriers, including arbitrary and capricious health and sanitary restrictions. Consideration should be given to the application of temporary import surcharges on products imported into the United States from countries employing such practices, to stimulate greater progress towards the elimination of such practices.

Countervailing and antidumping measures initiated in respect to agricultural and agriculturally-related products entering the United States should be enforced on a consistent basis. **The United States government response to unfair import competition should be no less consistent than its response to unfair export practices and foreign market barriers.**

Administrative protection of domestic industries under the 1979 Trade Act and Section 22 should be consistently enforced. The issue of agricultural producer standing before the International Trade Commission in countervailing duty and antidumping cases should be further explored and clarified. Consideration should be given to improvement of procedures employed by the Department of Commerce in antidumping cases, to prevent subsidies from lowering dumping margins. Customs rulings (including private letter rulings) should be published in the *Federal Register* 30 days prior to implementation, to ensure that domestic producers are knowledgeable of such rulings, and have the opportunity to protect their interests prior to the effect of those rulings being implemented.

Trade Negotiations

Legislation should be enacted to establish explicit and binding requirements to govern objectives of U.S. representatives to ongoing bilateral negotiations and general negotiations to reform the GATT. At a minimum, U.S. representatives should be bound to negotiate the following:

(a) Elimination or substantial reduction of constraints to fair and open trade in basic and value-added agricultural commodities, to include:

(i) tariffs;

(ii) quantity limitations;

(iii) nontariff trade barriers; and

(iv) predatory and unfair export practices.

The Commission is cognizant that allowance for, or modifications in, U.S. and foreign domestic agricultural policies must be taken into account in efforts to achieve the above objectives.

In relation to tariff reductions, the Commission recommends that U.S. representatives be authorized to undertake agreements to reduce tariff barriers by at least 50 percent, across the board and worldwide.

(b) Expansion of GATT applicability to include services, intellectual property, and other aspects of trade not currently addressed by GATT, particularly as they pertain to agricultural trade.

(c) Expansion of GATT applicability to state trading activities.

(d) Expedited dispute arbitration and settlement mechanisms within the framework of GATT.

(e) Achievement of tighter GATT enforcement powers, and clarification of criteria relating to unfair practices contained in the Subsidies and Countervailing Duties Code.

(f) Achievement of internationally approved and recognized scientific and technical standards governing quality, health, and quarantine standards.

GATT Reform

The following reforms should be undertaken in respect to the GATT:

(a) Achievement of tighter GATT enforcement powers.

The enforceability of GATT rulings is undermined by the consensus nature of GATT decision-making, the veto power of signatories, and the absence of binding requirements on signatories in the event of a finding of unfair export subsidization. The rule of unanimous consent should be eliminated. The current GATT process makes it too easy for GATT violators to sidestep their treaty obligations. The process should be undergirded by automatic and admissible retaliatory actions that are binding on all GATT signatories.

(b) Clarification of criteria relating to unfair trade practices contained in the Subsidies and Countervailing Duties Code and Article XVI of GATT.

Current criteria contained in the Subsidies Code governing GATT definition of export subsidies need greater clarification. The Subsidies Code was intended to refine the definition of admissible and inadmissible trade practices referred to in Articles VI, XVI, and XIII of the GATT. In practice, however, the Code provides cover and lends an air of legitimacy to trade practices that are clearly in violation of fair trade precepts.

Export subsidies applied to primary products should face the same restrictions as are currently applied to subsidies on nonprimary products. Every effort should be made to provide for specific prohibition of such subsidies regardless of current criteria, which allow such practices in the event that their use does not result in exports above an "equitable share" of world markets.

Consideration should be given to amendment of GATT to allow the imposition of countervailing duties on subsidized imports without a finding of injury to a domestic industry or at a lower standard of injury than the present "material injury" standard.

(c) Extension of GATT applicability to state trading activities.

State trading activities are common in world agricultural trade, and yet issues arising from the incidence of unfair state trading are not addressed by GATT. State selling agencies engage in export subsidy and dumping activities and state importing agencies engage in preferential, "closed door" purchasing; however, it is currently virtually impossible to determine the extent of their involvement. GATT rules are needed to govern the activities of state trading organizations to include:

(i) Provision for greater transparency on exporter and importer sales transactions, as to prices, credit terms, or other transactions by state exporting and importing organizations;

(ii) Tightening of state practices in regard to export sales at prices different from internal sales prices, and internal sales prices unrelated to world prices; and

(iii) Open bidding for all imports.

Such efforts should include addressing practices of nonmarket economies that are currently not signatories of GATT.

(d) Improved and expedited dispute settlement within GATT.

GATT dispute mechanisms are currently far too cumbersome and slow. By contrast, determinations of the International Trade Commission and subsequent Executive action in countervailing and antidumping cases are subject to a much more stringent and legally binding time constraint.

The Commission believes that time constraints and procedures under Section 301 of the Trade Act of 1974 should be no less binding than legislatively mandated requirements under

Section 201 - 203 of the 1974 Act, and Section 337 and Title VII of the 1930 Tariff Act.

Consideration should be given to the following improvements in the GATT dispute settlement process:

(i) Allow the Director-General of GATT to intervene more effectively to bring disputing parties into mediation and arbitration;

(ii) Bind disputing parties to voluntarily agree in advance to submit their case to a neutral arbitration panel and to abide by the panel's decision;

(iii) Designate pre-selected, nongovernmental individuals, rather than government representatives, to serve on "expert panels";

(iv) Establish a reasonable timetable for consideration and action by "experts;" and provide uniform guidelines for information to be contained in such reports;

(v) Provide for automatic publication of all panel reports. The adoption of or alteration of panel recommendations should be separated from the panel report;

(vi) Take effective action to counteract the impact of currency valuation arising from factors other than those determined by market forces. Consideration should be given to the admissibility under GATT of countervailing duties, or other safeguards, on imports benefitting from unjustified competitive advantage resulting from the manipulation by governments of such values without regard to market indices, or agreements entered into between countries in respect to such currency valuation.

(e) Appropriate safeguards and retaliatory capabilities to ensure greater cooperation in trade matters.

The United States government and U.S. negotiators in international fora should have appropriate ammunition to pursue aggressively international cooperation in trade matters. Great care should be taken in the selection and preparation of U.S. negotiators. In addition, as recommended elsewhere, to encourage timely action on Section 301 cases the U.S. Trade Representative should be required to take retaliatory action against nations utilizing unfair trade practices within six months of the filing of a 301 petition, except if (a) he determines within such time that action in respect to the 301 petition is unwarranted, (b) determination is made by appropriate and binding GATT mechanisms that the U.S. position is unsubstantiated, or (c) agreement is entered into with the offending nation to eliminate such practices.

Appropriate attention should be given to the maintenance of programs designed to protect U.S. industries from the effect of unfair import competition.

COMMENTARY

In world agriculture, as in other trade-affected sectors of the world and U.S. economy, the notion of free and even fair trade is illusory. Unfair and predatory competition is the order of the day. **Consequently, the interests of agriculture – and of agricultural related interests and enterprises – demand a greatly more magnified effort to overturn foreign practices that are prejudicial to the achievement of worldwide economic benefit through the expansion of U.S. agricultural exports.**

Agriculture's case is not unique. However, the evidence is overwhelming. Seventy percent of all Section 301 cases pending before the Office of the U.S. Trade Representative through the end of August 1984, by its own account, involved agricultural and agricultural related unfair trade practices. The *Annual Report of the President on the Trade Agreements Program, 1984- 1985* documents negotiations or other U.S. actions relating to unfair trade practices in agriculture and agricultural related activities involving a host of countries: Argentina, Brazil, Canada, the European Community, India, Japan, Mexico, New Zealand, Korea, Scandinavia, and Taiwan. Needless to say, this list could be substantially augmented through simplified procedures resulting from enhanced monitoring of the incidence of unfair competition.

THE INCIDENCE OF UNFAIR FOREIGN TRADE PRACTICES

The extent and the severity of foreign unfair

trade practices have been well documented in the Commission's Interim Report. Among the nations employing such practices in 1985 were the following:

Argentina. **Argentina's primary tool for increasing or decreasing exports has been an export reimbursement (called a reembolso) or an export tax.** The rates and product coverage change frequently. These tools have been used to encourage domestic processing and export of high value goods. Prime examples are encouragement of vegetable oils (soya, sunflower) rather than the beans and seeds, and of leather goods rather than of cattlehides. Apple juice subsidies have also been frequently cited by the trade. In times past, Argentina has subsidized wheat sales but only on a very limited basis. In recent years, Argentina has not subsidized its wheat exports but does discount its posted market prices in order to sell its surplus.

Australia. **The Australian Wheat Board (AWB), a marketing board organization, provides extended board payment terms to certain markets.** The Export Finance and Insurance Corporation of the Australian Government provides export credit insurance to the AWB.

Australia also markets its wheat through the marketing board, but as a rule has not subsidized the sale of wheat into the export market. As a result of a record wheat crop last year of 22 million tons, Australia has undertaken an aggressive marketing campaign and has increased its credit guarantees for wheat purchases to $700 billion. Previously, Australia emphasized cash markets. In addition, about 5.5 million tons of last year's crop were damaged by wet weather. The Australian Wheat Board (AWB) has sold a good portion of this in the form of feed wheat. However, much of this wheat is actually intended for human use: for example, approximately 500,000 tons of off-grade though millable wheat has been sold to Bangladesh for human consumption. Other sales have been made to Mexico and South Korea. Australian sales of damaged wheat, much of which will be utilized for human consumption, have the potential for displacing U.S. wheat and coarse grain exports in numerous markets.

Australia also has underwritten apple and pear exports, and underwrites sultana production to guarantee a minimum return. Australia provides a rebate on sugar exports, which varies with the world price of sugar and reached A$142.50 (US$157.89) in February 1983.

Austria. Payments are made for the export of slaughter cattle and beef to certain destinations; in 1983, they totaled 480.1 million Austrian shillings (US$26.7 million). **Austria has a coresponsibility system with the grain industry to aid export sales, and an intervention system for bread grain financed by the government.**

In October, 1983, Austria signed a contract with the U.S.S.R. for delivery of 244,000 tons of wheat and barley at a subsidy of about $68 per ton. Austria is also under agreement with East Germany to supply 350,000 tons of grain annually at what is believed to be subsidized prices.

Brazil. **The government of Brazil provides a credit premium on exports of "industrialized" products.** At present the nominal rate is 11 percent of the adjusted FOB invoice values. Credits in 1982 amounted to 188.9 billion cruzeiros (US$1,052 million). It also provides an income tax exemption for exporters under certain conditions; in 1981, tax exemptions totaled 53.1 billion cruzeiros (US$570 million). There is also working capital financing for export producers, which totaled 471.3 billion cruzeiros (US$2.6 billion) in 1982.

Pressed by the need for foreign exchange earnings, Brazil exported corn in 1982 at a price below the acquisition cost to government. This amounted to a subsidy of between $5-$10 per ton. Indications are that at least 100,000 tons went to Spain, a market largely dominated by the United States.

Brazil and the European Community have profited especially by subsidies on poultry. U.S. exports of whole broilers dropped by an incredible 71 percent in 1982 to 38.9 thousand metric tons compared to 134.5 thousand tons in 1981, followed in 1983 by a 66 percent drop to 14 thousand tons. The value of whole broiler exports fell from $169.5 million 2 years ago to $17.5 million in 1983. Substantial declines in key markets like Egypt and Iraq accounted for most of this sharp decline. Through that time period, U.S. suppliers were facing a $350-$400 per metric ton price disadvantage for whole broilers and 20 cents per dozen disad-

vantage for eggs in selected Middle East markets compared to subsidized prices from the EC and Brazil. Domestic broiler prices have risen now, reaching $1,350 per metric ton to which a minimum of $130 must be added for transportation and handling. With C&F quotes in the Middle East running in the $990-$1,100 per metric ton range for broilers, the U.S. disadvantage is in a range of $350-$500 per metric ton.

Our competitors unload poultry meat at lower prices through a number of mechanisms. The French and other EC suppliers use export subsidies, which now run around $220 per metric ton, in addition to producer subsidies. From 1978 to 1983 production of whole chickens in France's three largest poultry firms increased by at least 52 percent, largely due to regional investment grants and subsidies for enterprises which stock, process, and distribute agricultural products. These subsidy programs can be combined so that as much as one-half of the investment for each poultry slaughtering plant may be subsidized. Virtually all of the production from these plants is exported.

Brazilian poultry exporters are eligible for subsidized financing and are exempt from corporate income taxes on export sales. Poultry producers receive rural credit loans at below market rates, and in the past have received subsidized corn if they could prove that they exported poultry.

The same subsidizing exporters are now encroaching on our markets for chicken parts in the Far East. Brazil has successfully test marketed chicken legs in Japan and is reportedly shipping parts to Hong Kong as well. In two years, these subsidizing exporters displaced almost 90 percent of U.S. export sales of whole chickens, and now they threaten to do the same to our sales of parts.

Canada. **Canada subsidizes rail freight costs for certain grains, oilseeds, and products from the prairies provinces to the coasts under the Feed Freight Assistance Program and the Crow's Nest Pass Rate.** It exports wheat and certain products through the Canadian Wheat Board (CWB).

The CWB is a quasi-private organization that lists prices of wheat sales on a daily basis but which frequently sells wheat to importers at prices below listed export levels, particularly during the last two years or so while the world wheat market has been very competitive. Another way in which the CWB subsidizes (or aggressively markets) its wheat sales is by signing a contract for a specific grade of wheat and then subsequently shipping the importer a higher quality grade of wheat but at the price level of the lower quality grade.

European Community. **The European Community makes restitution payments (export subsidies) available to virtually all basic commodities produced within the EC and to the processed products made from them.** 1982 and 1983 expenditures on export restitution payments totalled $5 billion and $5.4 billion, respectively. (See attached tables.)

The EC has been moving 15 million tons of wheat/wheat flour annually on the world market (outside EC member countries) for the last four years. None of the wheat sold by the EC would be competitive on the world market if EC exporters were not paid a sizable restitution on the order of $60 to $70 a ton. The amount of restitution on EC wheat exports varies depending upon the region of the world to which it is shipped (such as Middle East, Africa, Far East, et cetera). The EC has also heavily subsidized flour exports by as much as $70 per ton. This has directly contributed to the decline in commercial U.S. flour exports. For example, since the early 1960s, U.S. commercial exports of flour have fallen from around 750,000 tons to about 200,000 to 300,000 tons annually. The U.S. share of commercial flour trade has declined from about 25 percent to an average of around 9 percent. Because of export subsidies, the EC share has increased from about 25 percent to 80 percent.

The EC subsidizes barley exports by as much as $40 per ton. In 1983-84, 2.5 million tons were exported, with Algeria, Saudi Arabia, Spain, and the U.S.S.R. the largest markets. EC export subsidies on rice have been in excess of $200 per ton. In Calendar Year 1983 Italy, the major EC rice producer and exporter, exported about 440,000 tons of rice, with Middle East and North African countries the largest markets outside other EC members.

West Germany has a clearing agreement with East Germany that provides a high subsidy

for West German grain exports. In the agreement, both West and East German currencies are treated equally. However, because the West German mark is worth roughly four times its eastern counterpart, this arrangement represents a very substantial subsidy which is sufficient to more than equalize the lack of EC export restitution or subsidy on grain. For the first time, West Germany exported 150,000 tons of wheat and 50,000 tons of barley this spring to East Germany under this agreement.

France has an export credit system which combines private and public financing. Credit insurance is provided by COFACE, a quasi-public organization. Credit may be offered which would not be commercially available, or with automatic access to official finance credits, thus being easier to obtain than regular commercial credits. (For comment on EC poultry subsidies, see discussion for Brazil.)

An illustration of a particularly troublesome situation is the effect of EC subsidies on U.S. apples exported to the Middle East. The EC has for many years provided a lucrative subsidy for apples moving to a number of destinations, including the Arabian Peninsula. The current subsidy is equal to 12.00 ECU's per hundred kilo, currently equivalent to about US$1.79 per 42-lb. carton, or roughly about 15-20 percent *ad valorem*. This subsidy has been particularly annoying since the U.S. has established a reasonably good volume market, especially in Saudi Arabia. Although these Middle East markets have expressed a preference for American red varieties of apples, the EC subsidy is sufficiently attractive to swing some trade in favor of France, the principal EC participant in the subsidy program.

Finally, it should be noted that the EC provides processing subsidies for certain fruits and vegetables – currently from 1.5 cents per lb. to 49 cents per lb. for various tomato products and 4.7-7.9 cents per lb. for canned peaches. An export subsidy of 3.6 cents per lb. was established on May 31 for raisins shipped to North Africa and East Europe. The latter subsidy is separate from the assistance that was the subject of the U.S. GATT com- plaint.

Finland. Finland has a price compensation scheme which finances the difference between domestic and world prices for inputs of major agricultural raw material components. The product may then be exported. It also pays export dairies a refund to cover the difference between domestic and target milk prices. A similar system exists for eggs, beef and veal, pork, mutton, barley, and oats. This refund program cost 1,923 million Finnish marks (US$15.5 million) in 1980, 2,345 million Finnish marks (US$460.7 million) in 1982.

India. India has a cash compensatory support system to compensate for taxes and levies on inputs used in export production.

Israel. Israel markets citrus through a Citrus Marketing Board and its noncitrus products through AGREXCO, a quasi-government agency. Products excepted from the AGREXCO monopoly are avocados, poultry products, and flowers. The Israeli government does not publish information on the budgets of these agencies.

Japan. Japan makes food aid shipments of rice. The deficit in the control account of rice, wheat, and barley under the food control special account for Fiscal Year 1982 is estimated to be 526.3 billion yen (US$2.1 billion), excluding the deficit from the surplus disposal of rice. This figure includes domestic program measures on all three products.

Japanese producer prices for rice are much higher than world prices and in the past have stimulated production far in excess of domestic demand. In order to dispose of the surplus, export subsidies have reached over $1,000 per ton. In 1980, Japan exported 795,000 tons. Since then, exports have declined because of bad weather and a rice diversification program. However, with the relaxation of the diversification program and the return of favorable weather, Japan could again be in a position to export.

New Zealand. New Zealand has a tax credit to encourage export market development, and a program of loans which convert to grants, based on export sales levels. All major agricultural commodities are marketed through governmental marketing boards.

Norway. Norway provides price supports on certain agricultural commodities. Exports on beef and veal, pork, cheese, barley, and eggs have to be subsidized in order to move

at world prices.

Pakistan. **Pakistan provides an income tax exemption of up to 55 percent for certain export income,** and an export finance scheme which provides refinancing to commercial banks at zero interest against the latter's advances to finance export of commodities other than rice, wool, hides, skins, and leather.

South Africa. The use of marketing boards aims to assure that domestic prices are not significantly influenced by world prices. As an example, the Dried Fruit Board, which handles raisin exports, pays the producers at prices calculated on a pool basis with money earned in the domestic and export markets combined, and adjustments made on the basis of a crop's sales. The Tobacco Board may supplement export receipts with funds derived from levies on domestic sales. Similarly, South African losses on exports of chilled or frozen beef are financed by the Meat Board's Stabilization Fund.

The South African Maize Board subsidizes exports by purchasing domestic corn at prices well above world market prices and in turn selling corn for export at much lower prices. In the export expansion drive of 1982-1983, the subsidy reached as high as $60 per ton. In that year, South Africa exported 4.7 million tons of corn. However, South Africa has not exported for the past two seasons because of drought. The United States has often filled the markets that South Africa was unable to supply. For example, the United States and South Africa were major sources for Taiwan's corn imports which total about 3 million tons annually. Because of South Africa's drought, the U.S. share rose from 65 percent in 1981-82 to 93 percent in 1983-84. The return of subsidized exports from South Africa could cut directly into U.S. markets.

Spain. **Spain has a variety of measures to support the agricultural sector.** Agricultural subsidies totalled 83.3 billion pesetas (US$902.4 million) in 1981, of which 3.0 billion (US$33 million) were for export refunds. Spanish export incentive programs include (1) a rebate of internal taxes on exports of virtually all commodities; (2) a revolving-type credit for working capital granted by government banks to exporters; (3) government-subsidized rate on credit for the prefinancing of exports; (4) an export payments insurance program with subsidized premiums (applies primarily to losses related to the cancellation of exports contracts); and (5) direct export subsidies which in 1983 were limited to tomato paste. The government granted a 16 peseta (or 12 cents US) per kilogram restitution on paste exports to all destinations except the United States, with the limit of 33,000 metric tons of paste in the 1983-84 marketing year.

Sweden. **Sweden provides price supplements for certain products, regional aids to production, income support, and export refunds;** the total cost of these programs was 5.1 billion kroner in Fiscal Year 1981-82. Export refunds are paid on most agricultural products to cover the differences between domestic and world prices; they totalled 1.4 billion kroner (US$276.5 million) in fiscal year 1981-82.

Switzerland. **Switzerland provides subsidies to cover the difference between earnings from the sale of cheese on domestic and foreign markets.** It makes payments to export dairies based on the amount of milk use (in July 1982, payments ranged from 45 to 60 centimes [22 to 30 US cents] per kilogram of milk, depending on the product). In 1982, Switzerland paid subsidies of 30.8 million Swiss francs (US$15.2 million) to maintain exports of cattle; it also pays domestic subsidies for cattle, apricots, wine, grape juice, and table grapes.

Taiwan. With burgeoning rice stocks, **Taiwan has pursued a policy since 1977 of sharply increasing its support prices while heavily subsidizing its rice exports.** Mid-year rice sales were made in the region of $240-$260 per metric ton, compared with the government's acquisition cost for domestic rice of about $700 per ton (unadjusted). Exports in 1983 rose to 550,000 tons. This prompted the Rice Millers Association to file a petition under Section 301 of the 1974 Trade Act on July 13. After an investigation by USTR and consultations with Taiwan, an agreement was signed March 1, 1984, whereby Taiwan agreed to limit its sales to 1.375 million metric tons over the next five years. (Shipments in 1984 were limited to 375,000 tons.)

The above provides some examples of the extensive use of unfair trade practices and is not intended to be a comprehensive

listing. Among those commodities not mentioned is sugar, which may be the most impacted by unfair trade practices. One or more such practice is employed by essentially all sugar exporting countries. The cumulative effect of these unfair trade practices has created a world sugar market the price of which reflects more the process of dumping than the cost of producing the commodity. If unfair trade practices are permitted to continue and grow unchallenged, the world market for more commodities could become divorced from the economics of production, as occurred for sugar.

The damage to U.S. agriculture created by unfair foreign competition is well reflected in the number of U.S. agricultural industries that have filed for relief by the U.S. government under Sections 201 and 301 of the 1974 Trade Act (see attached).

The cost to the United States of such predatory trade practices, among other factors, is a declining market share for basic U.S. commodities (see attached).

The U.S. taxpayers bear the cost of U.S. government agricultural adjustment programs, the need for which would be lessened in the absence of foreign constraints to trade. In addition, the cost of foreign export subsidy programs is also tremendously unfair to taxpayers and consumers overseas (see attached).

U.S. AGRICULTURAL COMMUNITY CONCERNS

The rapidly escalating incidence of unfair foreign trade practices prompts the agricultural community of the United States to demand firm and swift counteraction of such practices by the federal government. U.S. agriculture has always maintained a strong commitment to the principle of free trade. It has consistently provided a bulwark against the development of protectionist sentiment at home and abroad. However, **the aggressive tactics of competitor nations have shaken American agriculture's confidence that the international trading environment can be made equitable for all nations engaged in agricultural trade.** This failure of confidence now runs through a very broad range of public policy concerns. It is an element in agriculture's criticism of federal government actions which have been criticized as being "too little, too late." It is present in discussions on the efficacy of the GATT system. It is an extremely negative factor in our overall relations with many of our best friends and allies overseas.

If foreign governments are to provide their agricultural industries with the means to become more competitive in world trade – irrespective of what economic realities would otherwise dictate – it is incumbent on the United States government to do the same. The alternative, as continuously reiterated elsewhere in this report, is to invite the ruination of our nation's agricultural sector.

It has long been the desire of the American agricultural community that disputes in trade matters be resolved through processes of negotiation with other competitor nations, bilaterally and in the GATT. The GATT mechanism was established to provide a forum for managing disputes. **However, in recent years, GATT has failed to prove an effective means for negotiating such issues.** As shall be indicated elsewhere in this section, GATT arbitration mechanisms are cumbersome and slow. It is possible that the current problems of international agricultural trade go beyond the institutional capabilities of GATT, to successfully manage the number of significant agricultural trade issues either exempt from GATT consideration – such as state trading – or unevenly handled in the process – such as export subsidies – would appear to bear this out.

If GATT is to remain an integral part of the international trading environment, its objectives, rules, and procedures must be brought up to date and made workable. It is of limited use as a global debating society. The United States and other nations can achieve substantial benefit through reform of the current GATT mechanism. **Proposals for reform are included in this report. The Commission strongly urges the Administration and the Congress to incorporate such proposals as the United States undertakes to prepare for the next round of multilateral trade negotiations.**

Reform should also be sought in policies of the United States government which relate to the timing and substance of U.S. retaliation

against unfair foreign trade practices. Such retaliation is admissible by law. **Section 301 procedures need streamlining, as will be made evident below. Automatic retaliation must be a feature of U.S. agricultural trade policy, to spur greater cooperation in such matters. Finally, the U.S. government must not shrink from using all tools available to it to counteract unfair foreign trade practices.** Limited use of such tools may bear only limited results. The climate of international tension in agricultural trade matters threatens to take the high road to equity and common sense. In such an environment, **U.S. agriculture has a right to insist on the maintenance of a strong deterrent and a national policy of economic self-defense.**

U.S. Counteraction

There has been recent progress in respect to actions by the United States government to counteract the impact of unfair foreign trade practices, or otherwise discourage thier use by competing countries. Substantial credit for improving the arsenal of U.S. agricultural policy tools must go to the Congress, which authorized their use despite strong Administration opposition. However, in recent months, both USDA and USTR have also assumed a much more aggressive and effective stance on international agricultural trade matters. **The Commission commends both Congress and the Administration for reinvigorating U.S. policy. However, it is of the opinion that even more could be done.** As a first step, the export BICEP program should be expanded for use in retaliation against unfair trade practices of nations other than EC countries. Beyond that, all the tools contained in the 1985 Farm Act should be used to the maximum extent allowed by law.

Export Enhancement

The Food Security Act of 1985 endorsed several export assistance programs implemented by USDA in recent years specifically to counter or offset the adverse effects on U.S. agriculture of unfair trade practices on the part of the competitors.

The Export Enhancement Program, **announced by USDA in May 1985, was extended through 1990 by the 1985 Act.** As later amended in March 1986, USDA is authorized to use at least $1 billion worth of CCC-owned commodities as export bonuses through Fiscal Year 1988 to make U.S. commodities more competitive in the world marketplace, and to offset the adverse effects of unfair trade practices or subsidies.

Since the Export Enhancement Program was initiated last year, 37 initiatives have been announced with 18 countries. More than 11 million tons of commodities, including 8.5 million tons of wheat and wheat flour, 1.3 million tons of barley, 250,000 tons of semolina, 150,000 tons of poultry feed, 100,000 tons of barley malt, and 40,000 tons of rice, have been designated for specific countries. In addition, the program has also included 500 million table eggs, 28,000 tons of frozen poultry, and 38,000 dairy cattle.

The volume of the ten commodities covered by these export enhancement initiatives represents roughly a tenth of the projected volume of total U.S. agricultural exports in Fiscal Year 1986, including almost a third of the projected level of U.S. wheat sales. The book value of the bonuses offered three- quarters of the way through the fiscal year was $264.3 million, more than three-quarters of the $333-million target for the first year of the three-year program.

The Targeted Export Assistance Program, **mandated in the Food Security Act of 1985, is another program in which the Administration is directed to assist U.S. exporters in countering the effects of unfair trade practices on the part of foreign com-petitors or importers.** The new program provides that financial support may be in the form of either cash or commodities – the latter is the new feature. A support level of $110 million is specified for each fiscal year through 1988, and $325 million annually in the succeeding two years. Through June 1986, FAS had announced 11 targeted export assistance programs for 14 commodities.

Utilization of the Export Enhancement Program is evidently having a desired effect – the cost to the EC, for example, of maintaining export subsidies (which is also determined by factors such as the value of the U.S. dollar) has increased substantially since the program was implemented in June 1985. Nevertheless, the program remains ham-

strung by limitations applied by the Federal government, which, until extension of the program to the Soviet Union, isolated its application for retaliatory purposes only to countries and only for commodities benefitting from EC export subsidies.

As a result, no practices of Canada, Australia, Argentina, Brazil, and other countries practicing unfair competition (as described elsewhere)have been actionable under the program. The Commission certainly commends the use of the program to retaliate against unfair EC competition. Nevertheless, it believes that the effectiveness of the program could be greatly enhanced if it were applied across the board to include all countries and commodities engaged in agricultural trade. **Since virtually all other countries in international trade currently practice some form of unfair export practice, extension of the program should not constitute any abrogation of current guidelines, while it would greatly serve U.S. export sales of a tremendous variety of products.**

The decision by Congress to reduce from $2 billion to $1 billion the value of commodities to be used under the Export Enhancement Program was, the Commission understands, necessitated by political and other complexities arising in the aftermath of the 1985 Farm Act. The Commission did not, and does not, support any reduction in funding for the program below the level specified in P.L. 99-198. During debate on the 1985 Farm Act, the Administration argued that it would be difficult to program the quantity of commodities during the time frame required by the legislation without interference in normal commercial sales. The Commission is fully cognizant of the need to maintain additionality. Nevertheless it believes that the higher level of the originally approved program could have been sustained. In this instance, the Administration – originally opposed – crafted guidelines on the use of the program, which necessarily limited its application. In addition, the haste with which the program was announced in June 1985, found USDA struggling to craft further guidelines for the program, even as mandated schedules for its implementation were reached and then passed. The Commission, therefore, concludes that the Congress and the Administration would do well to consider an improvement in the overall organization of USDA international trade functions, as recommended elsewhere in this report, to eliminate such delays in the future.

While substantial private sector concerns were evident on announcement of the Export Enhancement Program, particularly as they pertained to its effect on prices and demand, the consensus within the agricultural community has, since that time, swung substantially toward support for wider application of the program. Continuing problems involving cargo preference preclude the use of the blended credit program, which from 1983 through 1985, was the nation's chief weapon in combating unfair trade practices. **The Export Enhancement Program together with the Targeted Export Assistance Program constitute the only currently operational tools, beyond traditional credit and food aid programs, that are likely to be used to counteract the incidence and impact of unfair foreign trade practices. They are a resource, therefore, that the agricultural community must closely guard, with strong emphasis on their use beyond that currently practiced by the Administration.**

Trade Negotiations

Together with new export enhancement activities – however limited their application – the Administration has also, in recent months, shown a greater willingness to take a firm position in matters of agricultural trade negotiations. Self-initiated USTR Section 301 cases in September 1985 included an investigation of Japanese tobacco import practices. On March 31, 1986, the President announced his intention to take action against agricultural restrictions imposed by the EC following accession by Spain and Portugal. In the ensuing dispute over EC accession issues – including the announcement by both the United States and EC of restrictions on imports – USTR and the Administration demonstrated strong leadership. The willingness of the EC to negotiate such issues indicates that a firm U.S. response is an important stimulant to their future cooperation in trade matters.

Credit for the strengthened U.S. role in agricultural trade negotiations must go to

Ambassador Clayton Yeutter and Secretary of Agriculture Richard Lyng. Strong Congressional pressure for Executive Branch action was a potent factor. In sum, it appears that both Congress and the Executive Branch are engaged in a more forceful treatment of these issues, despite disagreement on the specifics of trade law administration.

Nevertheless, many problems attending the application of U.S. trade law persist. This is particularly true in respect to Section 301 of the Trade Act of 1974.

Section 301 is intended to provide relief to domestic industries suffering from the impact of unfair foreign trade practices through process of petition and redress by the President. **Since Presidential authority actionable under Section 301 is considered subject to prior international trade agreements binding the United States and other nations, the provision has served largely to introduce U.S. grievances into international arbitration and consultation, bilaterally and in the GATT, rather than to provide automatic assistance to affected U.S. industries,** as provided under other statute, particularly in cases involving antidumping and countervailing duties. **The net result has been both frustrating and time consuming with only limited benefit to American agriculture,** particularly in circumstances where the preponderance of evidence would indicate the propriety of offsetting action.

Section 301. Section 301 of the Trade Act of 1974 (P.L. 93- 618,88 Stat. 1978, January 3, 1975) authorizes the President to take all appropriate and feasible actions within his power, including retaliation, to obtain the elimination of any act, policy, or practice of a foreign government which is found to violate an international trade agreement or to be unjustifiable, unreasonable, or discriminatory and which burdens or restricts U.S. commerce.

Additional subsections and amendments regarding 301 actions were provided under the 1984 Trade and Tariff Act (P.L. 98-573, 98 Stat. 2950, October 30, 1984). The President may now restrict, in the manner and to the extent he deems appropriate, or deny the issuance of any services sector access authorization (e.g. a license) issued by a federal regulatory agency in response to acts, policies, or practices as already noted. This new subsection on services applies notwithstanding any other provision of relevant law and will be implemented prospectively.

Section 301 investigations are administered by the U.S. Trade Representative (USTR) with the advice of an interagency 301 committee. Any interested person may file a petition with USTR, requesting the President to take action under Section 301 and setting forth the allegations in support of the request. Most Section 301 cases are resolved by negotiation and, where appropriate, by the formal dispute resolution procedures of applicable international agreements. Each case must be decided within the time limits required by Section 304 of the Trade Act of 1974 as amended.

As reported by USTR in their most recent annual report, at the end of August 1984, the following agricultural cases were pending before USTR.

Wheat Flour (Miller's National Federation (MNF) v. European Economic Community (EC)

On November 24, 1975, the MNF filed a Section 301 petition alleging an EC violation of its international obligations under GATT Article XVI:3. The MNF claimed the EC was using export subsidies to gain a more than equitable share of world export trade in wheat flour.

USTR initiated an investigation on December 1, 1975, and, after numerous consultations with the EC, decided in September 1981 to pursue this case under the Subsidies Code. Further consultations were held and the conciliation phase of the dispute settlement was completed on December 14, 1981.

The case was presented to a three-member Subsidies Code panel from February to April 1982. The panel report, issued on February 24, 1983, found that EC subsidies were not inconsistent with some code provisions and failed to make findings with respect to other provisions. The panel report has been discussed in four code meetings but remains pending.

Citrus Fruit [Florida Citrus Commission (FCC) et al v.EC]

On November 12, 1976, citrus interests in Florida, California, and Arizona filed a petition

with USTR alleging that preferential import duties established by the EC for imports of citrus fruit and juices from certain Mediterranean countries had an adverse effect upon U.S. citrus producers.

USTR initiated an investigation on November 29, 1976. Public hearings were held on January 25, 1977. During the Tokyo Round of the Multilateral Trade Negotiations (MTN), U.S. representatives sought reductions in EC duties on citrus products. The EC agreed to reduce the duty on fresh grapefruit from 4 to 3 percent ad valorem but no reductions on other items were forthcoming.

Following the MTN negotiations, further bilateral discussions were held and formal consultations under GATT Article XXII:1 were held on April 20, 1982. The United States requested a GATT panel at meetings of the GATT Council on June 29 and July 21, 1982. However, because there was disagreement in the Council about the propriety of the U.S. request, the United States agreed to attempt conciliation using the offices of the GATT Secretariat. Conciliation efforts were unsuccessful and a panel was established at the November 1982 GATT Council meeting.

The panel's composition and terms of reference took some months to resolve. The panel held four meetings from October 31, 1983, to March 12, 1984. The factual portion of the panel report was submitted to the parties on September 27, 1984. The full report was submitted on December 14, 1984, and was reported to the GATT Council on February 1, 1985. The EC blocked adoption of the panel's report and refused to negotiate a reduction.

On June 20, 1985, the President decided to impose substantial tariff increases on imports of pasta from the EC as a means of rebalancing concessions. Following the President's decision, the EC decided to reduce its export subsidization on pasta and committed itself to taking steps on citrus in the fall. As a result, the President suspended the pasta duty increase until October 31, 1985, to provide adequate time for a resolution to be reached.

Poultry [National Broiler Council (NBC) v. EC and Brazil]

On September 17, 1981, the NBC and others filed a petition which made two basic allegations: (a) that EC subsidies on whole chickens violate Article 10 of the Subsidies Code in that the EC, through such subsidies, has obtained more than an equitable share of world trade in whole chickens and has displaced U.S. chicken exports to specific markets, including the Middle East and the Caribbean; and (b) that EC export subsidies threaten serious prejudice to U.S. pasta manufacturers, contrary to Article 8 of the Subsidies Code, by displacing U.S. manufacturers in their markets.

USTR initiated an investigation on November 30, 1981, and, after the EC refused consultations under the Subsidies Code, the matter was referred to the Subsidies Code Committee for conciliation. When conciliation failed, the United States requested a Subsidies Code panel which met on July 14 and October 8, 1982, and March 29, 1983. The panel submitted its report to the code committee on May 19, 1983, (three to one in favor of the United States). The Code Committee considered the report on June 9 and November 17, 1983, and has not yet made a decision.

Canned Fruits and Raisins [California Cling Peach Advisory Board (CCPAB) v. EC]

On September 11, 1981, the CCPAB and others filed a petition alleging that EC production subsidies adversely affected U.S. commercial interests and violated GATT Article XVI by displacing sales of non-EC products in the EC and impairing tariff bindings on those products. The petition was withdrawn for revision and refiled on October 29, 1981.

USTR initiated an investigation on December 10, 1981. A public hearing was held on January 6, 1982, and consultations with the EC, under GATT Article XXIII:1, were held on February 25, 1982 in Geneva. On March 31, 1982, USTR requested a GATT panel under Article XXIII:2. The EC requested additional consultations on raisins, which were held on April 29. On August 17, 1982, the President directed USTR to complete the dispute settlement process expeditiously.

A three-member GATT panel met on September 29 and October 29, 1982. The panel found that EC subsidies impair tariff bindings and issued its report on November 21, 1983. Another panel meeting was held on February 27,

1984. A revised report was submitted to the parties on Article 27. An additional panel meeting was held on June 28, 1984.

On July 20, 1984, the panel issued a revised final report to the United States and the EC. By mutual agreement, the report was to be considered by the GATT Council only after attempts to reach a settlement through bilateral consultation. The dispute was brought before the GATT Council on March 12, April 30, May 29, June 5, and July 17, 1985.

Soybean Products [National Soybean Processors Association (NPA) v. Brazil, Spain and Portugal]

On April 6, 1983, the NPA filed a petition alleging that: (a) Brazil subsidized the export and production of soybean products and adversely affected U.S. sales in third countries; (b) Spain subsidized exports of soy oil and placed a quota on consumption of soy oil in Spain which, by forcing Spain to export oil produced in excess of the quota, adversely affects U.S. sales in third countries; and (c) Portugal placed price and quantity restrictions on imports of soy products, thus adversely affecting U.S. sales of soymeal in Portugal.

USTR initiated an investigation against Brazil, Portugal, and Spain on May 23, 1983. A public hearing was held June 29 and 30, 1983. Consultations under Article 12 of the Subsidies Code were held on November 21, 1983, between Brazil and the United States. On January 23 and February 12, 1984, the President directed USTR to pursue the dispute settlement procedures which had already been initiated under the Subsidies Code.

In making this determination, the President noted that Brazil had suspended the application of two of its subsidy programs to soybean products. Brazil and the United States have agreed to exchange further information about their respective programs. In June 1984, Portugal began lifting its restrictions on soymeal imports. USTR is consulting with the petitioner regarding action against Spain.

COMMISSION PERSPECTIVES

These cases listed above, together with information attached as an addendum hereto provides ample evidence that cases brought to GATT under Section 301 of the 1974 Trade Act have failed to provide substantial relief; or have languished in a bureaucratic regime of committees and expert panels. In such committees, diplomacy, rather than equity, is the order of the day. **The recommendations of the Commission with respect to GATT are reflected in the attached report. The Commission urges the Congress and the Administration to bear such matters in mind as they approach the task of the upcoming round of multilateral trade negotiations.**

The time-consuming nature of the current process is only one consideration. Beyond that are the legal costs of such proceedings. It is estimated that, since April, 1983, the National Soybean Processors Association has spent in excess of $1 million in legal costs associated with the filing of its petition alleging unfair foreign subsidies involving soybean oil and meal. It is clear that costs of this magnitude act as a disincentive to seeking redress of grievances, particularly in the case of industries under major financial pressure.

The Commission's recommendations in both of these areas promise an opportunity for improvement in the current process. Automatic retaliation under Section 301 after six months, following terms specified elsewhere in this report, coupled with increased out- reach assistance to affected industries (which is an element of the Commission's USDA reorganization proposal), could reduce both the time frame and cost of private sector efforts to overturn unfair foreign trade practices. Building on these reforms, changes in the GATT, as proposed by the Commission, would yield additional benefits to U.S. agriculture, while potentially improving the climate of our current trade relations with our leading trading partners and competitors.

U.S. AGRICULTURE AND THE G.A.T.T.

A Study Prepared

For

National Commission on Agricultural
Trade and Export Policy

May, 1986

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U.S. AGRICULTURE AND THE G.A.T.T.

Executive Summary

This report examines some of the key issues relating to U.S. agriculture and the GATT. It does this in the context of how GATT rules evolved, the experience under them, and how the dispute settlement process works. It highlights some issues U.S. agricultural groups will have to face in another round of trade negotiations.

Agriculture has special rules in GATT. These special rules are largely the result of U.S. influence in developing GATT and were designed to fit the U.S. farm programs of the times and the demands of the U.S. Senate. The special rules relate to export subsidies and quantitative import controls.

The issue of subsidies, especially export subsidies, has been the most difficult issue in agricultural trade, as measured by formal GATT cases. Most of the cases have involved programs of the European Economic Community and their use of export subsidies.

Quantitative import restrictions on agricultural products also have been a source of friction. Here the special waiver which the U.S. enjoys has become an increasing irritant to the rest of the world.

GATT rules on state trading have never been well developed and have been largely ignored in practice. It is difficult to devise rules which will control some of the most troublesome practices of state trading organizations.

There currently is a good deal of dissatisfaction with dispute settlement procedures in GATT. If one examines the situation, however, the breakdown in dispute settlement seems largely to involve the inability of major trading groups to resolve disputes in agriculture. Recently, both the U.S. and the E.C. have moved to blocking GATT panel reports which they do not like. This points up the fact that GATT is a voluntary association of sovereign nations which has no power to impose policies which are politically unpalatable upon member nations.

If the U.S. expects to achieve significant changes in GATT rules relating to agriculture, it must be prepared to put its own farm price and income programs, import restrictions, and export subsidy programs on the negotiating table. It is unreasonable to expect that there will continue to be different rules for different countries.

Current trade tensions are the result of a convergence of events during a period of worldwide economic stress in agriculture. They cannot be solved by GATT, but GATT provides an institutional framework within which these problems might be addressed.

I. Introduction

A political decision has been made in the U.S. Government and in the governments of most other major trading nations to move forward with a new round of multilateral trade negotiations under the auspices of the General Agreement on Trade and Tariffs (GATT).

This decision comes at a time when the level of dissatisfaction in the United States with the trading system is at the highest level since World War II. This is especially true in U.S. agriculture where there has been a sharp decline in both the obsolute and relative share of agricultural exports during the 1980's. Many agricultural groups in the U.S. attribute this decline to unfair trading practices of other nations and, thus, are demanding that drastic changes be made in the rules relating to agricultural trade.

This report attempts to do three things: First, it examines GATT as an institution -- what it is, what it does, and how it works. This is done in a historical context of how the present rules come into being.

Second, the report examines certain procedural issues in GATT, largely relating to dispute settlement. This is done in the context of agricultural issues which have been a major source of contention during the past five years. Some recommendations as to possible changes in procedures are outlined.

Third, the report discusses some of the substantive issues relating to agriculture which must be addressed. It does not attempt to tell U.S. agricultural groups what their position should be on these issues. Instead, it attempts to suggest what decisions must be faced by U.S. agricultural groups in preparing for a new GATT round.

II. The Scope of This Report

This report is not intended to be a comprehensive study of the history of GATT or even of all aspects of GATT. It focuses on the issues which appear most important for agricultural trade and tries to identify the U.S. interests in them. Unlike most reports on agricultural trade, however, it attempts to put these issues into the context of GATT rules and GATT negotiations. Therefore, it does not deal with subsidies as abstract economic policies which distort trade flows but looks at the real issues which must be faced in dealing with the subsidies in a trade negotiation.

The historical review is for the purpose of indicating the experience which got us to where we are today. It is not intended to be exhaustive, but hopefully it is accurate despite the generalizations involved.

Four aspects of importance to agricultural trade are involved. They are import controls, export subsidies, state trading, and dispute settlement between GATT members. The first two issues are largely peculiar to agriculture because GATT has special rules for agriculture involving them. Issues involving dispute settlement and state trading cut across all areas of trade, although state trading is probably more pervasive in agriculture than for other goods because it is common in market economies as well as in socialist countries.

The author is an economist and not a lawyer. Much of the published material on GATT and related subjects is written by lawyers. However, in the political-economic world in which trade negotiations take place and trade policy is made most of the participants are not lawyers. Therefore, a minimum use has been made of legal terms and legal references, both as a result of intent and necessity.

III. The Evolution of GATT

The instituion we now call GATT was the outgrowth of a series of institutional reforms growing out of the breakdown in international economic relations during the great depression of the 1930's. Among the other institutions that grew out of this era are the International Bank for Reconstruction and Development (World Bank) and The International Monetary Fund (IMF).

The original drafters of the plan envisioned an International Trade Organization (ITO) as the world's international trade organization. Negotiations proceeded under an interim committee which drew up a Protocol of Provisional Application of the General Agreements on Tariffs and Trade in 1947. However, the United States Senate refused to ratify an ITO. Thus, the only portion of the ITO to survive was the General Agreement, and the GATT still operates under the Protoco[l] of Provisional Application.

There are several important facts to remember about GATT. First, at the time the basic Articles of GATT were drafted and agreed to, the United States was the dominant international economic power in the free world. Europe and Japan were only beginning to recover from the devastation of World War II, and many of the developing countries which have now become important world economic powers were far less confident and powerful four decades ago than they are today. In fact, some countries, such as South Korea, Nigeria, and Bangladesh, did not exist as independent countries at the time GATT was conceived and founded.

IV. What Is GATT?

There is a tendency at present to view GATT as some kind of international bureaucracy located in Geneva which develops and imposes a set of trading rules on countries. Many groups in the United States do not like the rules they see imposed, or not imposed, and thus, they want to either abolish GATT, ignore it, or unilaterally change it. Some view GATT as an international trade court which passes upon the legality of trade actions.

In reality, GATT is a set of mutually agreed upon rights and obligations voluntarily entered into by sovereign nations. These rights and obligations are embodied in the various Articles of GATT, as amended by agreements developed over the years. These member nations have together developed sets of rules which govern trade between member nations.

At present, 87 nations are offical signatories to GATT and, thus, have agreed to accept the rights and obligations embodied in the General Agreements and the associated rules which govern trade. Thus, some major trading nations are outside these rules. The largest is the Soviet Union. Until recently Mexico was not a member of GATT, but they have now announced an intention to join.

It is useful to remember what GATT is not. GATT is not a court. In the United States where we are used to courts and litigation, we tend to believe in definitive court decisions and court-imposed sanctions backed up by U.S. law. GATT has no marshalls and no armies to impose its rules on sovereign nations. Thus, if nations are believed to be in violation of GATT agreements the issue becomes one of the balance of rights and obligations. If a nation is determined to have violated the trading rules, other members have the ability to withdraw concessions to offset their loss of rights.

The decision-making power of GATT rests with its Contracting Parties -- i.e., with the council made up of representatives of its member nations. The Director-General of GATT and its other employees in the Secretariat are employees of the Contracting Parties and, as such, have no authority over individual member countries, the rules of GATT, and/or the proceedings.

Most decisions in GATT are made on a consensus basis. Rarely, if ever, is there an up or down vote by the Contracting Parties whereby the majority imposes its views despite the

objections of other members. This need for a consensus is frustrating to some, especially to those used to definitive majority rule in national legislatures. On the other hand, it is unlikely that most nations, including the United States, would be willing to consistently submit their national control over policies to majority rule by a body of other nations.

This concept is important because it underlies the entire dispute settlement process and most of the rising dissatisfaction with GATT. When individuals or groups express dissatisfaction with GATT they are, in fact, saying they don't like the way other countries behave. GATT does not exist and does not act apart from its Contracting Parties which are member nations.

V. GATT and Agriculture

From the inception of GATT, agriculture has been treated differently than other sectors. The original GATT Articles (and exceptions) relating to agricultural trade were heavily influenced by the United States representatives and were drawn to conform to the economic and political realities of U.S. agricultural programs. It is, therefore, ironic to find some 40 years later that it is the agricultural rules and exceptions which are viewed by U.S. agricultural groups as the most troublesome part of GATT.

The special exceptions for agriculture were a point of contention within GATT from the outset. At the time of the

initial drafting the insistence of the United States on special rules for agriculture and not for industry was vigorously opposed by most developing countries which wanted the same special protection for their industrial sectors that were being given to agriculture.

It is useful to remember the agricultural policy context in which the GATT rules were written. The United States had passed its basic agricultural legislation in the Agricultural Adjustment Act of 1933 (the AAA or Triple A). That program set up the Commodity Credit Corporation (CCC) as the intervention mechanism to buy and stabilize the price of farm commodities which were suffering from the worldwide economic collapse of the 1930's. The AAA included production control programs, internal commodity price supports at above world levels, and the authority (Section 32) for the CCC to use export subsidies to increase the exports of U.S. farm products. It also contained the authority (Section 22) for the President to impose import tariffs and/or quotas if imports of commodities threatened the workability of farm price support programs.

The United States delegates to the preparatory conference for the ITO recognized that the U.S. Senate would not ratify an international agreement which forced us to dismantle our

agricultural program or make it inoperable./1 Thus, the United States pushed for special treatment for agriculture over the bitter opposition from much of the rest of the world.

Not only did agriculture get special treatment in the GATT, it got special treatment specifically tailored to the U.S. farm programs then in existence. The special treatment revolved around two issues: subsidies and quantitative restrictions. It is ironic that three decades later these special exceptions for agriculture would return to haunt U.S. exporters and policy-makers.

It should be remembered that the Common Market did not exist in the late 1940's; the Treaty of Rome was not signed until 1957; and the Common Agricultural Policy did not emerge in its full-blown form until the early 1960's. At the time GATT was conceived Japan was struggling to recover from wartime devastation and was scrambling to feed its population. Thus, most of the current agricultural policies outside the U.S. were developed after the GATT rules relating to agricultural trade were written.

/1 For a history of the development of GATT and the effect of U.S. agricultural policy on it see The United States and The Restoration of World Trade, William Adams Brown, Jr., The Brookings Institution, Washington, D.C. 1950.

VI. Subsidies In GATT

It is generally recognized that agriculture is treated differently in the GATT. Nowhere is this more evident than on the subsidy issue. And, ironically, this separate treatment has led to more agricultural trade disputes than any other issue.

The subsidy clause in GATT has a torturous background. The Havana Charter for the ITO had subsidy language but the original GATT articles had only a section which required any contracting party to report "any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any products into, its territory" to other parties. In other words, no prohibition on subsidies, domestic or otherwise. That form became Article XVI:1. Later the prohibition against subsidies on other than primary products was added as Article XVI:4.

In 1955, Subsidy Article XVI was extended. Section XVI:2 recognizes that export subsidies may have harmful effects (emphasis added). Then comes the famous XVI:3 which says, "Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world trade in that product, account being

taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or be affecting such trade in the products."

The footprints of the U.S. government are large on the drafts of the subsidy code. The developing countries objected to the separate treatment of primary products. The Australians correctly predicted that the concept of world trade share would prove unworkable. But, as was often the case in the early days of GATT, the U.S. prevailed.

Article XVI:4 went on to prohibit export subsidies on all products other than primary products. Thus, the separation of agriculture was completed!

It does not require a lawyer to recognize that the language in XVI:3 is wonderfully ambiguous. Among the questions left open are:

1. What subsidies increase exports?
2. What is a primary product?
3. What is an equitable share of the world market?
4. What is a representative time period?

Subsequently attempts have been made to clarify the Article XVI:3 provisions. The most recent attempt was during the Tokyo

Round completed in 1979. Despite the best attempts of the U.S. negotiators, improvements were very modest and largely illusory.

It is useful to think about why the U.S. representatives who drafted the initial subsidy rules followed the approach they did. Obviously it is not possible to know the motivations of persons long retired and often deceased. One can only infer that in the late 1940's and early 1950's the U.S. Government position was that agricultural subsidies were a fact of life, both for the U.S. and elsewhere. They must have assumed (correctly, it appears) that the complete abolition of such subsidies was economically difficult and politically impossible. Therefore, it appears that they concluded that the important issue to be addressed was <u>control of the adverse effects of subsidies on other parties.</u>

It is interesting to note the evolution from XVI:1 (vintage 1948) which allows subsidies to XVI:3 which says they are undesirable but when used shouldn't be used to gain unfair advantage (vintage 1955). However, the U.S. evolution did not cease. Over time the U.S. position has come to be that export subsidies are in and of themselves wrong and should be prohibited, regardless of their effects.

Thus, at present we have a fundamental disagreement on approach between several major agricultural trading nations on subsidies. The widest gap is between the U.S. and the E.C., and this is where most of the trade disputes have arisen. The U.S. (and several other nations) assert that the GATT should deal with

the means and, thus, agree certain practices are illegal. (The E.C. (and others) say that results (ends) are what counts and, therefore, the trade effects of government measures are what should be dealt with in GATT.

The Experience Under The Subsidy Code

In the area of agricultural trade, disputes over subsidies and quotas have dominated. A total of 14 subsidy disputes were taken to GATT since 1948. Eight of these occurred in the last decade, and all of them were subsidy disputes in agriculture. Moreover, it is over these subsidy cases that the dispute settlement process has broken down, indicating the fundamental differences between countries on the subsidy issue.

The entire list of subsidy cases taken to GATT has involved European countries (now E.C.). They go back to 1957 and have sharply increased in frequency since 1975. They include eggs (1-1957), flour (2 - 1958, 1981), barley (1 - 1977), sugar (2 - 1958, 1982), pasta (1 - 1982). Complaints against the E.C. have been filed by Australia, Brazil, Chile, and the United States. The handling of agricultural subsidy cases in GATT is the single largest source of complaints about both the GATT rules and processes.

The consistent thread that runs through these complaints is 1) that the panel reports are often less than precise; 2) that even where the panel reports have found injury the E.C. has in

many cases refused to end the practice or to take satisfactory remedial action. In some cases the E.C. has blocked the adoption of the panel report.

Much of the controversy has centered on the inability of the disputants and the panels to determine what constitutes an equitable share of the world market. Until the concept of "equitable market share" is resolved the subsidy code relating to export subsidies will continue to be a source of contention.

Two agricultural subsidy cases are notable in other respects. In the pasta case the U.S. charged that the export subsidies were illegal because pasta is not a primary product. The panel ruled in favor of the United States, thus helping to define the bounds of the "primary product" definition.

In another case brought by the U.S. against the E.C. it was alleged that production subsidies on canned fruit nullified or impaired tariff concessions previously granted by the E.C. The panel report agreed with the U.S. position. This case was interesting in that it was one of the few to recognize that domestic programs can disrupt trade, a position opposed by the U.S. when the subsidy rules were written.

Unfortunately, neither the report on pasta nor on canned fruit has been adopted due to the unwillingness of the E.C. to allow these precedents to become a part of the record.

Facing The Subsidy Issue In GATT

Most of the current dissatisfaction with GATT rules relating to agriculture hinge around the inability of the GATT dispute settlement process to resolve agricultural subsidy issues. The problem does not lie with GATT: It lies with the fundamental differences among major trading nations on agricultural policy.

These differences were cast into a continuing confrontation when the European Community adopted its Common Agricultural Policy (CAP) in 1957, which includes high internal prices and export restitutions (subsidies) as its basic foundations. That fact, together with the E.C.'s movement from a deficit producer to a surplus producer of many agricultural products, has brought them into conflict with other major agricultural exporters, especially the United States. As matters stand, there is no end in sight to the conflict.

In recent years there has been a move led by the United States to move export subsidy rules for agriculture closer to the rules for non-agricultural products. In other words, the U.S. (and others) want to prohibit export subsidies entirely or limit them markedly. The E.C. has countered by saying that domestic production subsidies such as target prices produce also distort production and trade and should be dealt with at the same time.

If the subsidy question is to be dealt with it is likely that all subsidies, domestic production and export subsidies,

will have to be put on the bargaining table. At that point the U.S. groups will have to make some basic choices. Among them are:

1. Are we willing to accept limits on:

   A. Export credit subsidies?

   B. Target price payments and/or other deficiency payments?

   C. Upstream subsidies to irrigation, public power, farm credit, and other agricultural inputs?

2. Do we wish to place limits on multiple pricing schemes not run by government programs - marketing orders, marketing boards, etc?

The U.S. Congress moved to define unfair trade practices in the 1985 Farm Bill. Section 1124(b)(2) says: " . . The term subsidy includes an export subsidy, tax rebates on exports, financial assistance on preferential terms, financial assistance for operating losses, assumption of costs or expenses of production, processing, or distribution, a differential export tax or duty exemption, a domestic consumption quota, or other method of insuring availability of raw materials at artificially low prices."

This rather broad definition, if universally adopted, would make a number of U.S. products subject to unfair trade practices.

All of this is merely to say that if the U.S. decides to pursue its goal of having a broad range of subsidies declared illegal under GATT rules it can expect two things: 1) The same rules will apply to the U.S. as apply to other trading nations; and 2) A broad definition of subsidies, both export and domestic, will have to be included. It is not reasonable to expect to be able to negotiate a subsidy agreement which leaves our programs untouched and makes the programs of other nations illegal.

The only alternative to this broad and comprehensive approach is to attempt to refine the market shares approach now embodied in Article XVI:3 which has already proven unsatisfactory. Moreover, in a period of great swings in exchange rates and market growth, it is impossible to determine normal times or unusual market conditions. In the past, U.S. agricultural groups have rejected a market shares approach to export markets and, therefore, serious attempts to refine the market shares approach is not likely to be popular.

No one should be under the illusion that negotiating a new subsidy code for agriculture will be easy. One person's subsidy is another's rightful protection, and these programs have deep political support in almost every agricultural economy. On the other hand, it is the subsidy issue in agriculture which has led to endless GATT disputes, and unless it is dealt with successfully, world trade in agriculture will be a continuing source of international tension.

VII. Quantitative Restrictions

The use of quantitative restrictions is another area of GATT where agriculture is differentiated from other products. Again, as in the case of subsidies, the U.S. was a dominant force in writing the rules.

Four articles of GATT deal with quantitative restrictions:

Article XI: Prohibits the use of quotas (with certain exceptions);

Article XII: Provides an exception to XI for balance of payments reasons;

Article XIII: Outlines the rules to be followed in cases where exceptions are utilized and quotas are applied;

Article XIV: Provides exceptions to XIII in certain balance-of-payments situations.

Insofar as agriculture is concerned, it is the exceptions in Article XI and the rules in Article XIII which are of interest.

As in the case of subsidies, the differential treatment of agriculture relating to quantitative restrictions was controversial from the outset. Developing countries objected to rules which prohibited them from using quantitative restrictions to protect their infant manufacturing industries from competition from developed countries. (How times have changed!) They objected even more to the agricultural exceptions which allowed

quantitative restrictions by developed countries for products for which the developing countries might be low-cost producers.

The agricultural exceptions in Article XI:2 are:

1. Export restrictions can be used to prevent or relieve critical shortages of foodstuffs on other products essential to the exporting country;
2. Import and export restrictions can be used to bring about the applications of standards or regulations for the classification, grading, or marketing of commodities in international trade;
3. Import restrictions may be applied on any agricultural or fishery product, imported in any form, necessary to the enforcement of governmental measures which operate to:
   A. Restrict the production or marketing of the like domestic product or of a domestic product which is a close substitute;
   B. To remove a temporary surplus of a like domestic product by making the surplus available to groups of domestic consumers free or at reduced prices;
   C. To restrict the quantities produced of any animal product which is directly dependent, wholly or mainly, on the imported commodity.

Thus, Article XI:2 offers protection to products under marketing orders. Article XI:3 protects any product with a domestic

production control program, a surplus removal program (like Section 32), or inputs used in animal production.

Anyone familiar with U.S. agricultural programs recognizes immediately that one set of provisions is to protect crops with price supports and production controls, and another is to protect crops with marketing orders or agreements. The purpose of the animal products input clause is not obvious and, indeed, its main application now would appear to be to allow the E.C. to restrict inputs used in dairy feeds. The U.S. has never had a serious production control program for any animal products, although such programs were contemplated under the original Agricultural Adjustment Act.

Ironically, even after writing these special exceptions for agriculture to fit U.S. agricultural programs, the U.S. found it could not live with what it had written. In 1951, the Congress said that "no trade agreement could be applied in a manner inconsistent with this Section (Section 22 of the Agricultural Adjustment Act). In 1955, the U.S. insisted upon and got the famous Section 22 waiver.

Thus, the U.S. was given the right under GATT through its waiver to put quantitative restrictions on the imports of any agricultural commodity which materially interferes with the operation of any agricultural program.

Other countries allowed the waiver at the time because it appeared that the U.S. might withdraw from GATT if it was not granted. However, this waiver, which provides different rules for the U.S. than for any other country, has been a source of continuing resentment by other countries and is regularly used by others to argue against trade liberalization in agriculture.

In addition to the formal GATT rules which allow the U.S. to restrict imports of any product with a price support program, another device has been used by the U.S. and others to impose import controls. It is the Voluntary Restraint Agreement (VRA) which forces exporters to agree to limit exports to a given market. These devices, which were first used in the manufacturing sector, have now spread to agriculture. The U.S. uses it periodically on beef to avoid invoking the U.S. meat import law, the E.C. has a VRA on manioc imports.

There is nothing "voluntary" about VRA's; they are akin to calling an armed robbery a voluntary contribution. They mainly serve to allow the importing nations to claim that they live with the GATT rules, and the wink that accompanies the claims of virtue are ignored. Of course, the main objection to VRA's by exporters is that they only work for the powerful trading nations with important markets.

The only time which the Contracting Parties of GATT authorized retaliation under Article XXIII:2 of GATT was in a 1951 case involving U.S. import quotas on dairy products. The

U.S. did not contest the case. The U.S. lost and did not remove its quotas. The Netherlands suspended concessions on wheat flour in retaliation. Shortly thereafter the U.S. insisted upon its Section 22 waiver.

Complaints under Article XI in the field of agriculture have been relatively limited, perhaps because the GATT rules and practices on quantitative restrictions in agriculture are so loose. Moreover, as will be discussed later, the use of state trading agencies provides a convenient way to restrict imports without invoking quotas.

Since it was recognized that import quotas were likely in agriculture, Article XIII seeks to set out rules for applying them. It basically tries to apply the most favored nation approach to quotas.

Article XIII:1 says that if you apply quotas they must apply to all imports from all sources or all exports to all sources.

Article XIII:2 says that if quotas are used they shall aim at a distribution of trade approaching as closely as possible shares which would be obtained in the absence of quotas. This includes the provision that restrictions "shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might

reasonably be expected to rule between the two in the absence of restrictions (Article XI:2(c)).

Anyone familiar with the use of import quotas knows that the purpose usually is to alter the proportion of imports relative to domestic production. Therefore, these rules are generally not followed and there are few disputes brought under them. In a recent case Nicaraugua brought a case against the U.S. on the denial of sugar quotas and won. The U.S. informed GATT it would terminate its action only if a solution to broader political issues were found.

There also is a provision which says that if quotas are allocated to countries some representative period should be used for determining the allocation. This is obviously to prevent the use of quotas as an overt foreign policy tool as in the sugar case cited, and to maintain some equity in the application of trade restrictions.

Changing The Rules Regarding Quotas

In recent years the U.S. has tried to get other countries, especially Japan, to remove import quotas on agricultural products. Despite our own widespread use of quotas, many of our agricultural exporters have come to recognize that quotas are one of the most serious barriers to trade because they allocate imports totally without regard to relative production efficiencies.

As in the case with other issues, U.S. interests will have to make some basic decisions on the quota issue in another round of trade negotitions. One decision will be regarding our Section 22 waiver. It is no longer realistic to expect that there will be one set of rules for the U.S. and another for everyone else. If the U.S. insists on the continuation of our Section 22 waiver and our meat import law, which also triggers quotas under certain conditions, we can expect serious difficulties regarding other aspects of our trade interests in agriculture.

Some have suggested that the United States voluntarily give up its Section 22 waiver as a prerequisite to a new trade round./1 While this would be a welcome gesture, it would be more realistic to use the Section 22 waiver as a bargaining chip for things the U.S. may want in the area of subsidies. The U.S. should not, however, be surprised to find that we are unlikely to get very much from giving up the Section 22 waiver. In reality, it primarily protects domestic dairy and sweetener interests. The other crops where it is used -- wheat, cotton, and peanuts -- would be in conformity with Article XI provisions of GATT most of the time because of domestic production controls. Moreover, the provisions of the 1985 farm bill which allows lower U.S. price supports on many products will reduce the need for import protection for most crops covered by government programs.

/1 See Agricultural Policy and Trade, D. Gale Johnson, Kenzo Hemmi, and Pierre Lordinois, A Report to The Trilateral Commission: 22, New York Universitv Press, 1985., P. 53.

It is unlikely that there will be a significant push from any source, including the United States, to abolish the special exceptions for agriculture under Article XI. It appears very likely, however, that all measures, domestic or export oriented, will have to be included if there is to be a serious agricultural negotiation.

VIII. State Enterprises

The GATT has had some difficulties in dealing with the role of state enterprises from the beginning. One was conceptual. Basically, GATT is founded on the concept of a world of private firms operating in a competitive environment. Governments interjected into this world by applying tariffs, quotas, or subsidies.

The original U.S. proposal had three elements: 1) That state trading entities operate on a non-discriminatory basis, governed only by commercial considerations; 2) That entities with monopolies on imports negotiate a limit on the level of protection applied in the form of a price markup; and 3) That countries using only state monopolies in trade agree to buy on a non-discriminatory basis in return for MFN status.

As it turned out, the first two elements were adopted in the GATT articles and the third was not. Even so, the operation of this aspect of GATT rules has not solved the problem.

The founders of GATT could not have anticipated that state trading would become pervasive in agriculture. Whereas it was originally seen as an issue largely with centrally planned economies, it is now widely used in "market" economies as well. It has been estimated that 90 percent of world wheat trade and 70 percent of coarse grain trade come under some form of state trading. State agencies and state-authorized boards are involved in exports of a significant portion of the world's agricultural exports.

Countries which use state enterprises as the sole importers of any or all agricultural products do not have to worry about the niceties of Article XI limits on import controls. They only buy as much as they want. These purchases allow them to control resale prices, internal price levels for the products, and sources of supply. There is no indication that GATT rules have ever been used to try to control internal resale prices.

The concept that state trading agencies should operate on a non-discriminatory basis is fine, but in practice it does not work that way. The Japanese Food Agency somehow insures each year that a constant proportion of its world wheat imports comes from the U.S., Canada, and Australia. Governments, including the United States, sign bilateral supply-purchase agreements under which importers agree to buy minimum amounts over a period of years.

Producers and traders in the United States have an ambivalent view of state trading. A single importer makes CCC export credit programs easy to use and supply-purchase agreements possible. U.S. wheat growers like the fact that the Japanese Food Agency buys 60 percent of its wheat from the U.S., regardless of competition. Export subsidy programs such as the present Export Enhancement Program, could not operate in an environment where importers were small competitive private firms.

The framers of GATT apparently did not envision a situation where state agencies or state-sponsored agencies were the sole exporters of products. This situation also has become common and also creates major problems.

A state selling agency has the ability to engage in discriminatory pricing, and the evidence suggests it is a common practice. This allows these exporters to be competitive in any market without the benefit of direct export subsidies (as they are now defined). Where state agencies are on both the selling and buying side of a transaction all sorts of side deals between governments can be involved and often are.

It is very difficult to determine whether or not an export subsidy or dumping is occurring when a state agency is involved in exports. The GATT does not address the problem and the U.S. Congress has been grappling with it unsuccessfully for some time. Thus, if a nation which uses state trading wishes to pay its farmers a high price and lose money on the product when exported

there is no effective prohibition against it and, moreover, it is virtually impossible to determine what is happening.

Dealing With State Trading In GATT

Issues involving state trading have not been a subject of disputes in GATT. This is probably due to both the ambiguous nature of the rules relating to state trading and the difficult nature of the issues involved.

It is clear that the issue of whether or not a nation uses state trading, on either the import or export side, is a matter of national sovereignty not subject to international negotiations. International institutions such as the World Bank can bring pressure for borrowing countries to end state trading on the grounds of inefficiency and government costs, but the GATT is not an institution by which the U.S. or any other nation can impose its institutional preferences on other nations.

Therefore, the best that can be hoped for in the way of GATT rules relating to agricultural trade is to try to obtain rules as to how state trading organizations operate. Even this approach is likely to produce little of value, however.

Looking at the state-controlled importer side of the issue, several things might be desirable. Among them are:

1. Open bidding for all imports;

2. Internal resale prices related to world prices;
3. Transparency in prices paid and other aspects of transactions by state importing agencies.

Unfortunately, most of these rules probably would be viewed as totally unacceptable infringements on national sovereignty just as outside rules or limits on the ability to set sales and excise taxes would be viewed in the United States.

It is equally difficult to envision a set of rules which would apply to state-controlled export agencies. Among those which might be desirable are:

1. Transparency on sales transactions -- prices, credit terms, etc.
2. Rules relating to export sales at prices different than internal sales prices. (This becomes very difficult unless convertible currencies are involved.)

No practical way has been devised as yet to deal with two of the major problems of state exporting agencies -- pricing below cost of production and discriminatory pricing.

Export pricing at below the cost of production comes under the heading of "dumping" in GATT. Basically, the provisions in Article VI of GATT relating to dumping involve the obligations which members agree to take regarding protecting against dumping in their domestic markets. This involves the "threat of material

injury" requirement. Moreover, the "cost of production" or "less than the price in the home market" concepts used to measure dumping have been equally difficult to interpret.

There are no provisions in GATT to limit dumping in third country markets as long as the importing country does not object. In other words, no rules exist to prevent either private firms or state-trading entities from pricing goods below domestic market prices or at less than full cost of production in third country markets as long as a subsidy is not involved.

This general absence of rules of behavior in third country markets points up an underlying theme of GATT. Generally, it addresses rules of behavior and places restraints upon countries regarding protection of their domestic markets. Only the subsidy code attempts to deal with behavior in third country markets, and that has not been effective, at least in agriculture.

As matters now stand, there are no effective GATT rules binding the behavior of state trading entities in agriculture and the prospects of obtaining them are not good.

A related matter not covered by GATT is the proliferation of bilateral supply-purchase agreements in agricultural products which have grown up in agricultural trade since the early 1970's. These are a favorite of state trading entities and have been of interest to U.S. producers at various times. In many cases the true nature of these agreements is not known and, thus, the

extent to which they violate the spirit, if not the letter, of GATT is uncertain. As a minimum it would seem desirable to have such agreements filed with GATT and subject to disclosure.

IX. The Evolution and Status of Dispute Settlement

In evaluating the dispute settlement procedures in GATT, some idea of what an ideal dispute settlement procedure would look like. Some of the criteria which appear relevant are as follows:

1. The process should proceed as rapidly as possible. ("Justice delayed is justice denied.")

2. The persons involved in deciding the dispute should be qualified to judge such disputes and should be neutral.

3. The process should be open. In other words, the criteria for determination and the facts used to reach it should be made public.
4. There should be a direct and understandable relationship between the winning (or losing) of a dispute and the action taken to correct the problem. ("Let the punishment fit the crime.")

Anyone familiar with the U.S. court system, which is the increasingly common method of dispute settlement in the U.S.,

knows that our courts often fail to meet these criteria. Despite this, however, there is a tendency on the part of U.S. groups to want GATT action to conform to our idealized view of how our courts should work.

Dispute Settlement in GATT /1

The procedures for dispute settlement under GATT have been arrived at by a process of evolution, but they still remain one of the most irksome to U.S. groups accustomed to more precisely defined domestic procedures.

The dispute settlement mechanisms of GATT center around two Articles - XXII and XXIII. Article XXII says that "each contracting party should accord sympathetic consideration to, and afford adequate opportunity for consultation regarding, such representations as may be made by another contracting party with respect to any matter affecting the operation of this Agreement." In other words, if someone has a complaint you should let him tell you about it.

/1 Two excellent reviews of the history and current status of the dispute settlement procedures are available. They are: Review of the Effectiveness of Trade Dispute Settlement Under the GATT and the Tokyo Round Agreements, USITC Publication 1793, December 1985.

John H. Jackson, "Dispute Settlement Techniques Between Nations Concerning Economic Relations -- With Special Emphasis on GATT," in Resolving Transnational Disputes Through International Arbitration, Thomas E. Carbonneau, Editor and Contributor, University Press of Virginia, 1984.

Article XXIII says that if any contracting party does something that nullifies or impairs benefits under the Agreement, the party suffering from such actions (or inactions) may - 1) officially object to the offending party, and 2) refer their objection to the Contracting Parties for investigation and and recommendation, including the authorization for the complainant to withdraw concessions or applications from the offending party.

Article XXIII is brief and does not outline a dispute settlement mechanism. History of dispute settlement in the GATT has been a history of improvisation and evolution. It was not until the Tokyo Round in 1979 that a code for dispute settlement was completed.

In the early days of GATT when disputes could not be resolved by consultations under Article XXII, a "working party" was established which included the disputing parties. These working parties would report to the Contracting Parties.

Over time the system evolved to the appointment of "panels" to investigate disputes which cannot be settled by consultations between the parties to the dispute.

The system which now exists came about during the Tokyo Round by codifying what was largely existing but unwritten practice. At present the procedures have five steps:

1. <u>Consultation and Conciliation.</u> The first step is for the complaining party to attempt to settle the dispute through consultations with the party engaging in the practice in question. If consultations fail, the parties may request the good offices of the Director-General of GAT to attempt conciliation.

2. <u>Establishment of a Panel.</u> If consultations fail, the complaining party may request the establishment of a panel. The decision to establish a panel is by consensus of the Contracting Parties. After a panel is authorized, the disputing parties must agree on the panel membership and terms of reference. The panel normally consists of three (3) or five (5) members chosen from national representativ to GATT.

3. <u>Panel Deliberations.</u> The panel requests information from the parties to the dispute and meets to consider the information and arguments. During this period the panel continues to give the parties "an adequate opportunity to develop a mutually satisfactory solution."

If no solution is found, the panel writes a report on its assessment of the facts and conclusions. This report is first given to the parties to the dispute for comment. I the parties reach a bilateral solution after reading the draft report, the draft report is set aside and a report which notes a settlement is circulated.

4. <u>Findings and Recommendations.</u> If a bilateral solution has not been reached, the panel's findings are circulated and considered at a meeting of the GATT Council as to whether or not to adopt the report. The decision to adopt is by consensus, including the disputing parties. At the same time recommendations to the disputing parties also are adopted. The Council may adopt some or all of the recommendations suggested by the panel or develop others as they see fit.

5. <u>Implementation.</u> If a panel report is adopted, the party complained against decides how it will comply or whether it will comply at all. If the complaining party is not satisfied, it may raise the issue again with the Contracting Parties. Finally, it may request authorization to suspend concessions or obligations relating to the party complained against.

This general outline of the current procedures is the result of the new (and tighter) set of rules agreed to on dispute settlement during the Tokyo Round. Several things are obvious, however. One is that the GATT process continues to focus largely on negotiation and conciliation. Even the panels play a dual role - fact finder and arbitrator.

Second, despite all of the good statements about the need for timetables and prompt action, there is unlimited opportunity for a country to stall for time if they are dealing with a politically sensitive subject. As we shall discuss, this has happened in recent years.

Third, it is possible that a nation can be found in violation of GATT and refuse, because of domestic political pressures, to take actions which end the violation. Nations generally have been reluctant to cede national soverignty to international organizations and in this respect GATT is no different. On the other hand, GATT panels and recommendations of the GATT Council carry substantial weight and moral suasion, and most trading nations try to avoid direct and overt violations of GATT rules.

As will be discussed later, the dispute settlement procedures of GATT have worked reasonable well -- with some notable exceptions. Unfortunately those exceptions tend to be in the area of agricultural trade.

A Review of Disputes In GATT

The USITC examined 84 disputes brought before GATT since 1984 to determine the history of dispute settlement. Their findings were revealing.

Either the United States or the European Community was a party to 77 of the 84 cases. In 26 cases the disputes were between the United States and the European Community. The U.S. has been involved in more dispute settlement cases than any other member nation of GATT.

Almost 60 percent of all cases brought to GATT concerned complaints about agricultural trade. Almost 70 percent of these agricultural cases have been complaints against EC practices. Over time the proportion of disputes relating to subsidies has risen, and <u>since 1975 all subsidy cases have concerned agricultural products.</u>

The USITC came to some important findings. With a few notable exceptions, the average time to select panel members and set the terms of reference has been two months. However, recently agreement on the composition of panels is becoming more difficult.

The length of time panels took in their deliberations varied but appears to be largely a function of the parties to the dispute.

Prior to 1979, the adoption of panel reports was customary. In only five (5) of 60 cases reviewed by the ITC were the panel reports not adopted. All five involved U.S. disputes on agricultural products, and four (4) of the five (5) were with the EC. Through 1985 the U.S. led in blocking adoption of two panel

reports, on soybean oil and wheat flour, although several members agreed the reports had faulty interpretations and were inadequate. The EC has blocked adoption of panel reports on canned fruit, pasta, and preferences for Mediterranean citrus. Inasmuch as the U.S. first led the way in blocking panel reports, our position on the use of this tactic would appear somewhat shaky and deserving of examination.

In summary, examined over a long period, the GATT dispute settlement mechanism has not worked badly. However, it has broken down on agricultural disputes between the U.S. and the EC. Therefore, any final resolution of the dispute settlement issue is greatly dependent upon a resolution of the fundamental issues between these parties on these crucial economic and political issues involving agricultural policies.

Even though the dispute settlement procedures work reasonably well, if there is a widespread perception that the dispute settlement process is inadequate the credibility of the GATT is undermined. Therefore, some changes and improvements in the dispute settlement procedures appear warranted. In fact, some are underway as a result of 1982 and 1984 actions taken by the GATT Council.

Possible Improvements In Dispute Settlement Procedures

Discussions of dispute settlement sometimes suggest that the object of the exercise is winning or not losing. This may be a

useful concept in civil court proceedings but it misses the point in international trade disputes. In these situations, "winning," as it is often defined, does not make the winner any better off.

The concept of winning a GATT case is viewed by many as gaining the official sanction of the Contracting Parties to impose retaliation on the offending nation by withdrawing concessions in an amount equal to the losses caused by the offending action. In fact, GATT has officially sanctioned the withdrawal of concessions only once in its history, that in a case against the United States by the Netherlands. However, the Netherlands chose not to retaliate for its own reasons.

In the infamous "chicken war" case of the 1960's the issue was not whether the EC action had damaged U.S. exports, but the amount of damages which should be allowed in the form of withdrawal of concessions by the U.S. When that was decided, the U.S. withdrew concessions on French cognac, German Volkswagen buses, and a few other minor items. U.S. chicken exporters were not better off, but American consumers were worse off, as were the producers of cognac and buses in Europe. European broiler producers, who were the beneficiaries of the EC protection, were not punished and U.S. broiler producers were not helped by the U.S. "victory."

Thus, retaliation is a meaningful concept if you view the nation as a single economic entity, but it is not very useful

except as a talking point if you view the nation as a collection of individual sectors and enterprises. Retaliation may offer relief if the injury involved occurs in your own market and the retaliation removes the injury there, but it rarely helps if it involves injury in the other country's market or third country markets. Therefore, retaliation is, in fact, designed to produce general political pressure to bring an agreed-upon settlement regarding the offending practice. The major value of compensation is as a deterrent. If a nation knows it will have some pain inflicted upon some of its economic interests, hopefully it will be somewhat deterred from willfully engaging in certain trade practices.

Given the fact the real aim of dispute settlement is to bring a satisfactory end to an injurious trade practice which violates the accepted trade rules, any procedure which furthers this aim without prejudicing the interests of other interested parties would appear to be a good dispute settlement procedure.

With this objective in mind, several changes have been proposed which might move in that direction.

One approach which has been put forward for consideration would put an optional three-step process in place to strengthen the present dispute settlement procedures. The three steps would be:

1. Consultation and mediation.

2. Binding arbitration.

3. The panel process.

Most of what is suggested are improvements on the present system, but some features are new to the GATT system.

Consultation and Mediation

Consultation under Article XXII has been a part of the dispute settlement in GATT from the beginning. By and large it has been successful and, thus, the total number of cases submitted for formal dispute settlement have been far less than the number of trade problems which have arisen.

What has varied from time to time is the extent to which the Director-General of GATT has actively been involved in direct mediation to make the consultation process produce results. In earlier years, an activist Director-General was very much involved in disputes and used his good offices to bring many disputes to a settlement prior to the formal complaint process.

In recent years this activist role on the part of the Director-General has been lacking. This is partly a matter of individual personalities, but the Director-General works for the member states and if they want his participation they should so indicate. Many informed observers believe this could make an appreciable difference.

Binding Arbitration

The immense cost of legal action in terms of time and money has sharply increased the use of binding arbitration in both U.S. and international dispute settlement. It is a common practice in U.S. labor relations and is widely used in contract disputes in international grain trade.

In the case of a trade dispute, the disputing parties would voluntarily agree in advance to submit their case to a neutral arbitration panel and to abide by the panel's decision. The panel could be chosen from a preselected roster (with right of veto) or could be put together by having three (3) members - one nominated by each party and one by the Director-General of GATT.

In the case of these trade disputes, the term binding does not imply that the country involved would have to end the specific practice if it was found to be in violation of GATT rules. In this case, binding would mean that 1) the findings would not be required to be approved by the GATT Council, and 2) that if a withdrawal of concessions was warranted they could occur without further action by any GATT body.

The use of arbitration could be applied to certain classes of cases or on an ad hoc basis as the disputing parties agreed. Part of the problem of the present system is that it treats all cases under a single system and the very process at times tends to make big issues out of little disputes.

One could see where a government might wish to have a decision of the type envisioned here. There are times when a definitive decision relatively isolated from any political process is preferable. There are times when GATT cases have been driven by domestic political forces and that even the complaining government has a limited belief in the virtues of the case. Conversely, there are times when a decision by a neutral group is much more acceptable to a domestic political group than would be the same decision reached in the real politics of the GATT Council.

If the binding arbitration approach was found to be an efficient and politically acceptable way to settle disputes, its use could be expanded.

Improving the Present Dispute Process

The major improvements in the present dispute process would appear to be in the area of panel selection, time limits, and panel reports.

At present, with few exceptions, panels are composed of representatives of governments which are members of GATT. The countries involved in the dispute are, of course, excluded. The exclusive use of such persons raises several questions.

First, the question of neutrality is often raised. Is any official of any government, even serving in a private capacity, really neutral in dealing with issues upon which his government

has a policy? Spheres of influence, language, historical relations, etc., all affect how governments and individuals in them act. However objective panel members are in fact, as long as there is a widespread perception they are not neutral, the dispute settlement process is in question.

Second, these individuals have other duties to perform and their priorities must go to those duties on behalf of their governments. Scheduling problems arising from these conflicts can add to delays in the panel process.

Third, the use of government representatives presumes an expertise in all fields, or that expertise is not needed. However, it would appear that panelists with an understanding of grain trade would be better able to sort out the facts in a wheat case than would a generalist.

Thus, there is a general movement toward supporting the use of preselected outside (non-governmental) individuals (experts) for panels. The Director-General asked countries to nominate outside experts as potential panelists. A "wise man's" report to the Director-General recommended the use of permanent panels of outside experts in 1985.[/1]

/1 Trade Policies For a Better Future, Proposals for Action, Geneva, March, 1985.

The third area of importance is timing. There seems to be widespread feeling that a strict but reasonable timetable for panel consideration and action be developed.

Fourth is the area of panel reports. What should they contain and how should they be treated? It would seem that a useful panel report would contain the relevant facts in the issue, examine the GATT rules and precedents, and make recommendations as to possible resolution of the issues.

As matters now stand, no apparent guidelines exist as to contents. Of greater importance, however, is that it is possible that under several circumstances the panel report may never see the light of day. For instance, if a dispute is resolved before the panel report is presented, it is merely noted that the dispute was settled. No record of the issues, the facts, or the possible findings is made. Thus, no "case law" is established and, equally important, outside parties never know quite what happened.

At present, a panel report must be adopted by the Council. As mentioned earlier, the blocking of adoption of panel reports has become common in recent years and, thus, the GATT dispute settlement process is thwarted.

It would appear highly desirable to provide for automatic publication of all panel reports. If panel members knew that

their reports would, in fact, become public without the requirement that they be accepted by consensus of the parties involved, it is a fair bet the quality and preciseness of the reports would improve substantially. This would be especially likely if they were not written by representatives of governments.

The adoption of or alteration of panel recommendations should be separated from the panel report. If a country wants to block formal action which recommends it do something, it should have that right. But, it should not have the right to block everyone from knowing what they are blocking.

None of the above changes will solve the trade problems arising from fundamental differences in economic interests and political philosophy. Sovereign nations will continue to insist on their right to accept or reject certain trade rules, but they should be prepared to pay the political and economic costs of violating the agreed-upon rules. However, no changes in dispute settlement procedures can deal with the fundamental differences on crucial trade issues. This appears to be the case on agricultural issues.

X. Reasonable Expectations and GATT

GATT does not exist in a vacuum. It cannot adopt an agreed-upon set of trading rules unless there is agreement on those rules by the major trading nations involved. When we say that GATT rules are inadequate, we are saying that important trading nations have different views on what the rules should be.

The problems experienced by the world trading system in agriculture need to be kept in perspective. The alleged "breakdown" in GATT has not occurred because GATT rules have changed but because the world agricultural situation has changed in ways which throw national interests into conflict in international agricultural markets.

Rules regarding agricultural trade have long been an irritant, but they were not a major source of disagreement in GATT until the later 1970's and 1980's. Two things happened in the last decade which have created trade problems. One was the rapid shift of the EC from a deficit to surplus producer and net exporter of grains, meat, poultry, sugar, dairy products, and other products. Because of the CAP these surpluses could only enter world markets via use of export subsidies. Thus the rising tension on the subsidy issues.

The second development was the worldwide slowdown in economic growth and the resulting slower growth in world consumption and trade in agricultural products. Coming, as it

did, in the face of continued growth in world agricultural productivity and output, the world now has a substantial overcapacity in agriculture competing for shrinking markets.

It is not reasonable to expect an international institution organized to develop rules for international trade to be able to solve the problems resulting from excess capacity in world agriculture. GATT was not organized for and cannot deal with declining farm incomes, falling land prices, or falling commodity prices which stem from the basic overcapacity problem. The best which member nations can hope for from GATT is that the trading rules can be developed and maintained in a way which prevents individual countries from pushing excess capacity problems onto other countries via the trading system.

The present GATT difficulties over both the subsidy rules and dispute settlement are largely, but not entirely, U.S.-E.C. problems. They cannot be solved by GATT or within GATT unless they can be resolved bilaterally. However, since their solution is of major interest and concern to a large number of countries, the GATT context is an appropriate one in which to deal with the problems.

Aggressive Action To Meet And Counteract The Effects Of UnFair Foreign Trade Practices

Accompanying Information On U.S. Market Shares For Major Commodities

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U.S. EXPORTS OF SELECTED COMMODITIES AND THE EXTENT OF FOREIGN GOVERNMENT EXPORT ASSISTANCE IN WORLD TRADE, 1983

[Dollars in millions]

Commodity	1983 U.S. exports	Extent of Governmental Assistance to Exports (in percent): Total [1]	Subsidies affecting exports [2]	Central marketing	State trading
Beef and veal, all types	$391.8	82	31	43	9
Pork, all types	183.5	80	22	13	44
Poultry meats	277.6	85	68		17
Eggs	56.2	97	93	5	
Lard	21.1	80	20		59
Tallow and grease	579.2	4	4		
Cattle hides	742.2				
Wheat and wheat flour	6,505.6	94	63	27	4
Rice	925.6	85	13		71
Coarse grains (barley, corn, oats, grain sorghum)	7,266.0	80	32	39	9
Cotton, except linters	1,817.0	69	12	4	56
Walnuts, in shell	34.6	74	74		
Almonds, shelled	243.2	42	42		
Apples, fresh	146.3	80	48	31	
Grapes, fresh	95.2	34	24	10	
Pears, fresh	25.4	65	41	24	
Raisins	105.5	78	10	68	
Prunes	71.4	89	24		66
Oranges and tangerines	235.1	84	43	37	4
Lemons	93.4	95	87	8	
Grapefruit	117.3	79	9	52	19
Soybeans	5,913.4				
Soybean oil	423.9	62	62		
Soybean meal	1,527.1	71	71		
Tobacco, unmanufactured	1,461.7	36	17		19
Total above	29,259.3				
Other	6,838.8				
Grand total	36,098.1				

[1] Percentages are approximate based on most recent trade data available.
[2] Subsidies in most instances are cash payments on exports but in some they are tax rebates and/or preferential credit.

FOREIGN GOVERNMENT EXPORT ASSISTANCE

Commodity	US exports	Balance of world exports [2]	Subsidies affecting exports [3]	Central marketing [4]	State trading [5]	Total government assistance
World exports of selected agricultural commodities, 1983 [1]:						
Beef and veal, all types (1,000 metric tons)	125	3,559	1,086	1,519	304	2,909
Percent			(31)	(43)	(9)	(82)
Pork, all types (1,000 metric tons)	99	1,210	286	160	536	964
Percent			(22)	(13)	(44)	(80)
Poultry meat (1,000 metric tons)	225	1,142	772		196	968
Percent			(68)		(17)	(85)
Eggs (million pieces)	1,030	9,452	8,791	489		9,280
Percent			[illegible]	(5)		(97)
Lard (1,000 metric tons)	43	243	[illegible]		144	195
Percent			[illegible]		(59)	(80)
Tallow and grease (1,000 metric tons)	1,447	1,806	78			78
Percent			(4)			(4)
Cowhides and skins, raw (1,000 metric tons)	603	990				
Percent					(6)	
Wheat and wheat flour (1,000 metric tons)	39,939	58,355	36,723	15,632	2,335	54,690
Percent			(63)	(27)	(4)	(94)
Rice (1,000 metric tons)	2,330	9,069	1,217		6,464	7,681
Percent			(13)		(71)	(85)
Coarse grains (1,000 metric tons)	53,984	37,526	12,148	14,781	3,266	30,195
Percent			(32)	(39)	(9)	(80)
Cotton, raw (1,000 bales 480 pound, set)	5,207	13,540	1,675	536	7,610	9,821
Percent			(12)	(4)	(56)	(69)
Tobacco, unmanufactured (1,000 metric tons)	240	1,100	185		211	396
Percent			(17)		(19)	(36)
Walnut, in shell (1,000 metric tons)	61	19	14			14
Percent			(74)			(74)
Almonds, shelled (1,000 metric tons)	59	46	42			42
Percent			(91)			(91)
Apples, fresh (1,000 metric tons)	273	1,075	521	336		857
Percent			(48)	(31)		(80)
Pears, fresh (1,000 metric tons)	36	229	93	55		148
Percent			(41)	(24)		(65)
Grapes, fresh (1,000 metric tons)	111	410	98	41		139
Percent			(24)	(10)		(34)
Raisins (1,000 metric tons)	52	234	24	159		183
Percent			(10)	(68)		(78)
Prunes (1,000 metric tons)	53	38	9		25	34
Percent			(24)		(66)	(89)
Oranges and tangerines (1,000 metric tons)	478	3,855	1,671	1,422	160	3,253
Percent			(43)	(37)	(4)	(84)
Grapefruit (1,000 metric tons)	308	455	39	237	85	361
Percent			(9)	(52)	(19)	(79)
Lemons (1,000 metric tons)	147	708	619	55		674
Percent			(87)	(8)		(95)
Soybeans (1,000 metric tons)	20,684	4,792				
Percent						(0)
Soybean oil (1,000 metric tons)	918	2,843	1,770			1,770
Percent			(62)			(62)
Soybean meal (1,000 metric tons)	4,853	13,477	9,550			9,550
Percent			(71)			(71)

[1] Individual commodity data are for calendar year 1983 or market year 1982-83. Cattle hides and tallow are for 1982.
[2] Intra-European Community trade is excluded.
[3] Numbers in parentheses represent the percentage of foreign exports receiving government assistance.
[4] Commodity marketing boards—national and/or provincial.
[5] State trading in nonmarket economics.

BEEF AND VEAL: [1] EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [2]	426	Cast payment.
Australia	728	Meat Board.
New Zealand	371	Meat Board.
Eastern Europe	304	State trading.
Argentina	420	Meat Board.
Brazil	450	Tax rebate.
Uruguay	210	Rebate of indirect taxes.
Others	650	
Total above	3,559	
United States	125	

[1] Carcass weight equivalent basis, excludes fat, offals, and live animals.
[2] Intra-European Community trade of 1,262,000 metric tons excluded.

PORK: [1] EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [2]	268	Cash payment.
Eastern Europe [3]	536	State trading.
Canada	160	Provincial marketing boards.
Others	246	
Total above	1,210	
United States	99	

[1] Carcass weight equivalent basis, excludes fat, offals, and live animals.
[2] Excludes intra-European Community trade of 1,803,000 metric tons.
[3] Consists of German Democratic Republic, Poland, Romania, and Hungary.

POULTRY MEAT: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	483	Cash payments to producers/exporters.
Brazil	289	Favorable production financing. Rebate of taxes, export credit.
Hungary	196	State trading.
Other countries	174	
Total above	1,142	
United States	225	

[1] Excludes intra-European Community trade of 363,000 metric tons.

EGGS: EXPORTS IN 1983

[Amounts in million pieces]

Country	Exports	Type of government assistance
European Community [1]	5,533	Cash payment (export restitution).
Eastern Europe	2,313	State trading, pricing to obtain hard currency.
Finland	547	Cash payment (export restitution).

EGGS: EXPORTS IN 1983—Continued

[Amounts in million pieces]

Country	Exports	Type of government assistance
Spain	398	Cash payment (export restitution).
Australia	199	Egg Board.
Canada	290	Eggs Marketing Board.
Others	172	
Total above	9.452	
United States	1,030	

[1] Excludes intra-European Community trade.

LARD: EXPORTS IN 1982/83 (OCTOBER-SEPTEMBER)

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	[2] 48	Cash payment.[3]
U.S.S.R.	73	State trading.
Hungary	37	State trading.
Romania	15	State trading.
Bulgaria	19	State trading.
Argentina	3	Tax rebate.
Others	48	
Total above	243	
United States	43	

[1] Excludes intra-European Community trade.
[2] 1983.
[3] Lard exports can be subsidized but European Community is not presently offering any export subsidies for lard.

TALLOW: EXPORTS IN 1982-83 (OCTOBER-SEPTEMBER)

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	[2] 50	
Australia	201	
Canada	178	
New Zealand	101	
Argentina	78	Tax rebate.
Others	1,156	
Total above	1,806	
United States	1,447	

[1] Excludes intra-European Community trade (estimated at 75 percent).
[2] 1983.
Source: "Oil World," May 6, 1983.

CATTLEHIDES: EXPORTS IN 1982

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	63	
Australia	125	
New Zealand	23	
Canada	91	
Switzerland	14	
Sweden	16	

CATTLEHIDES: EXPORTS IN 1982—Continued

[In thousands of metric tons]

Country	Exports	Type of government assistance
South Africa	14	
Argentina	36	
Others	608	
Total above	990	
United States	603	

[1] Excludes intra-European Community trade (estimated at 95 percent)

Source: "FAO Trade Yearbook," 1983

WHEAT AND WHEAT FLOUR: EXPORTS IN 1982/83 (JULY–JUNE)

[In thousands of metric tons]

Country	Exports	Type of government assistance
Canada	21,223	Wheat Board, subsidized rail rates.
European Community [1]	15,500	Cash payment (export restitution).
Australia	8,131	Wheat Board
Argentina	7,501	Grain Board.
Eastern Europe	2,335	State trading.
Others	3,665	
Total above	58,355	
United States	39,939	

[1] Excludes intra-European Community trade.

COARSE GRAINS: EXPORTS IN 1982–83 (OCTOBER–SEPTEMBER)

[In thousands of metric tons]

Country	Exports	Type of government assistance
Argentina	11,561	Grain Board.
Canada	7,048	Marketing Board (barley, oats), export credit guarantees (barley), donations (corn), subsidized rail rates.
European Community [1]	5,100	Cash payment.
Eastern Europe	3,266	State trading.
Thailand	2,423	Government controlled.
South Africa	2,300	Marketing Board.
Australia	920	Marketing Board.
Others	4,908	
Total above	37,526	
United States	53,984	

[1] Excludes intra-European Community trade

COTTON: EXPORTS IN 1982–83

[1,000 bales of 480 lb net]

Country	Exports	Type of export assistance
U.S.S.R.	3,300	State trading.
Pakistan	1,273	State trading.
Turkey	654	State control cash rebate.

COTTON: EXPORTS IN 1982-83—Continued

[1,000 bales of 480 lb net]

Country	Exports	Type of export assistance
Egypt	920	State trading.
Mexico	410	State and private trading.
Sudan	640	State trading.
Paraguay	335	
Guatemala	195	Central co-op marketing.
Nicaragua	341	Central co-op marketing.
Argentina	113	
Brazil	1,021	Differential taxes.
Syria	510	State trading.
Australia	617	
India	557	State trading.
Others	2,654	
Total above	13,540	
United States	5,207	

TOBACCO, UNMANUFACTURED: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 1	Cash payment.
Canada [2]	44	
Brazil	160	Preferential financing.
Argentina [3]	24	Direct production subsidy.
Zimbabwe	105	
India	75	
South Korea	27	State trading
Philippines	29	
Turkey	100	State trading.
Dominican Republic	24	
Malawi	60	
Thailand	46	
Bulgaria	58	State trading.
Yugoslavia	26	State trading.
Others	221	
Total above	1,000	
United States	240	

[1] Excludes intra-European Community trade

[2] Province of Ontario has announced it will fund up to 2 cent per pound export payment for the 1984 crop, if necessary. Total cost of export payment would not exceed $1,600,000

[3] Argentina provides a production subsidy paid from a fund generated by a special cigarette tax. This subsidy reduces the price of to export dealers and allows Argentina leaf to compete in world markets

WALNUTS (IN SHELL BASIS): EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	2.4	Cash payments.
India	11.8	Cash payments.
Turkey	5.0	
Total above	19.2	
United States	61.1	

[1] Excludes intra-European Community trade

RAISINS AND SULTANEAS: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 24.3	C. · payment.
Turkey	83.0	St. ·ontrol
Australia	57.9	Ma.·e.ing Board.
Iran	40.3	
South Africa	18.3	Marketing Board.
Mexico	5.5	
Others	5.1	
Total above	234.4	
United States	51.7	

[1] Excludes intra-European Community trade.

PRUNES: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Yugoslavia	[1] 25.1	State trading (cash payment).
Argentina	4.8	Post-export financing.
Chile	2.9	
France	4.6	Eligible for export restitution.[2]
Others	.2	
Total above	37.6	
United States	52.8	

[1] Excludes intra-European Community trade of estimated 4,400 metric tons.
[2] Although prunes are eligible for export restitution payments, no subsidy data are available, so it is not certain whether any payments have been made.

ORANGES AND TANGERINES: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Spain	1,472	Internal tax rebates, preferential credit.
Morocco	597	Government control.
Turkey	91	Exchange control—low cost loans.
Lebanon	97	
Israel	508	Citrus Board.
European Community	[1] 4	Cash payment.
Egypt	181	Government control
Cyprus	101	
Mexico	15	
Brazil	66	([2]).
Argentina	38	([3]).
Uruguay	23	
South Africa	317	Citrus Board.
Australia	30	
Cuba	160	State trading.
Others	155	
Total above	3,855	
United States	478	

[1] Excludes intra-European Community trade.
[2] Brazilian tax exemption assists exports of concentrated orange juice.
[3] Argentina reimburses certain taxes on grapefruit juice exports and levies export taxes on fresh grapefruit.

GRAPEFRUIT: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Cyprus	67	
Israel	177	Citrus Board.
Lebanon	6	
Spain	5	Tax rebate, preferential credit.
Turkey	11	Exchange control, low cost loans, tax rebate.
Argentina	23	([1]).
South Africa	60	Citrus Board.
Cuba	85	State trading.
Others	21	
Total above	455	
United States	308	

[1] Argentina reimburses certain taxes on grapefruit juice exports and levies an export tax on fresh grapefruit.

SOYBEANS: EXPORTS IN 1983-84

[In thousands of metric tons]

Country	Exports	Type of government assistance
Brazil	1,300	([1])
Argentina	2,600	
Paraguay	430	
European Community	[2] 11	
Others	451	
Total above	4,792	
United States	20,684	

[1] Brazil offered preferential financing for drawback operations, which was suspended in 1983-84.
[2] Excludes intra-European Community trade.

SOYBEAN OIL: EXPORTS IN 1983-84

[In thousands of metric tons]

Country	Exports	Type of government assistance
Brazil	875	Tax rebates, preferential credit differential export taxes.
Argentina	380	Tax rebates, preferential credit differential export taxes.
European Community	916	
Spain	435	State trading consumption quota, export tax rebate.
Portugal	80	Export tax rebate.
Others	98	
Total above	2,784	
United States	748	

SOYBEAN MEAL: EXPORTS IN 1983–84

[In thousands of metric tons]

Country	Exports	Type of government assistance
Brazil	7,600	Tax rebates, preferential credit differential export taxes.
Argentina	1,950	Tax rebates, preferential credit differential export taxes.
European Community	[1] 2,249	
Others	1,678	
Total above	13,477	
United States	4,853	

[1] Excludes intra-European Community trade.

RICE: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
Thailand	3,700	State trading (1/3 of total).
India	165	State trading.
Pakistan	1,299	State trading.
Japan	321	State trading, domestic support program.
European Community	365	Cash payment.
Burma	750	State trading.
People's Republic of China	550	State trading.
Taiwan	531	Sales at less than acquisition cost.
Others	1,388	
Total above	9,069	
United States	2,330	

[1] Excludes intra-European Community trade.

LEMONS: EXPORTS IN 1982–83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 113	Cash payment.
Cyprus	35	Cash payment.
Israel	30	Citrus Board, onetime cash payment.
Lebanon	17	
Spain	315	Tax rebate, preferential credit.
Turkey	135	Exchange control, low cost loans, tax rebate.
Argentina	21	Tax reimbursement.
Chile	3	
Uruguay	5	
South Africa	25	Citrus Board.
Others	9	
Total above	708	
United States	147	

[1] Excludes intra-European Community trade.

ALMONDS, SHELLED: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Italy	[1] 0.2	Cash payment.
Portugal	2.9	
Spain	42.0	Tax refunds, preferential credit.
Turkey	.5	
Total above	45.6	
United States	58.9	

[1] 2.2 intra-European Community trade excluded.

APPLES, FRESH: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Canada	64	Marketing Board.
European Community	[1] 301	Cash payment.
New Zealand	93	Marketing Board.
Australia	35	Marketing Board.
Argentina	220	([2]).
Chile	180	
South Africa	144	Marketing Board.
Others	38	
Total above	1,075	
United States	273	

[1] Excludes intra-European Community trade.
[2] Argentina reimburses certain taxes on concentrated apple juice shipped from Patagonia ports; it taxes fresh apple exports.

PEARS, FRESH: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 23	Cash payment.
Argentina	70	Tax reimbursement.
Chile	21	
South Africa	55	Marketing Board.
Others	60	
Total above	229	
United States	36	

[1] Excludes intra-European Community trade.

GRAPES, FRESH: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 98	Cash payment
Chile	152	
South Africa	41	Fruit Board.
Others	119	
Total above	410	
United States	111	

[1] Excludes intra-European Community trade.

EC EXPENDITURES FOR AGRICULTURE—1982 AND 1983

[Monetary units in millions]

	Total				Intervention				Export subsidies				Subsidies as percent of total appropriations	
	1982		1983 [1]		1982		1983		1982		1983			
	ECU	US	ECU	US	ECU	US	ECU	US	ECU	US	ECU	US	1982	1983
Guarantee section:														
Cereals and rice	1,875	1.838	2.548	2.268	769	754	1.004	894	1.106	1.084	1.544	1.374	59	61
Sugar	1.242	1.217	1.434	1.276	498	488	526	468	744	729	908	808	60	63
Olive oil	493	483	676	602	484	474	671	597	9	9	5	4	2	—
Oilseeds	707	693	1.070	952	703	689	1.065	948	4	4	5	4	—	—
Fruit and vegetables	914	896	1.085	966	855	838	1.020	908	60	59	65	58	7	6
Wine	571	560	634	564	539	528	602	536	32	31	32	28	6	5
Tobacco	672	610	668	595	605	593	645	574	17	17	23	20	3	3
Dairy	3.328	3.261	4.708	4,190	1.807	1,771	2,901	2.582	1.521	1.491	1.807	1.608	46	38
Beef and veal	1.159	1.136	1.474	1.312	515	505	772	687	644	631	702	625	56	48
Pork	112	110	180	160	16	16	30	27	96	94	150	134	86	83
Poultry meat and eggs	104	102	125	111	0	0	0	0	104	102	125	111	100	100
Processed products	414	406	320	285	0	0	0	0	414	406	320	285	100	100
Other agricultural products	539	528	585	521	525	515	585	521	14	14	0	0	0	0
Monetary compensatory amounts	313	307	412	367	0	0	0	0	290	284	383	341	93	93
Total	12.406	12.158	15.919	14.168	7,352	6,543	9.821	8,741	5.054	4,953	6.069	5.401	41	38
Guidance section	722	707	653	581										
Total	13.128	12,865	16,572	14,749										

[1] Appropriations.

Note.—Columns may not add due to rounding.
Average for 1982, 1 ECU=$0.98; average for 1983, 1 ECU=$0.89.

TOTAL EC AGRICULTURAL EXPORTS AND EXPORT REFUNDS, 1983

[Dollars in millions]

Commodity [1]	Agricultural exports: Total	Agricultural exports: To non-EC countries	Export refunds [2]	Refunds as a percentage of exports to non-EC countries
Grains and preparations	$8.383	$3.595	$1.374	38
Milk and products	3.515	2.969	1.608	54
Agricultural oils and fats	2.154	935	8	1
Sugar and preparations	2.409	1.463	808	55
Beef and veal	3.842	668	625	93
Pork	3,800	603	134	22
Poultry and eggs	1,515	552	111	20
Fruits and vegetables	4,733	1,028	58	6
Wine	2.763	1,240	28	2
Tobacco, unmanufactured	435	214	20	10
Processed agricultural products not specified above	12.081	4,320	285	7
Other (residual)	17,586	5.849		
Total	[3] 69,217	[3] 23,429	[4] 5,401	23

[1] Nimexe items used for groupings were: grains, ch 10 all, 1101, 1102, 1902, 1903, 1905 to 1908; milk, 0401 to 0404, fats and oils, ch. 15 all, sugar, ch. 17 all; beef, 020104 to 020127, 020684 to 020691, 160252, 160253; pork, 020131 to 020154, 020178 to 020194, 020611 to 020682, 160226 to 160249; poultry 020201 to 020390, 160215 to 160224, 040501 to 040570; fruits and vegs., ch. 8 all, ch. 20 all, wine 2205 and 2206; tobacco, 2401; processed agricultural products, chs. 5, 6, 9, 18, 21, 23 all, 4101, 5301 to 5305, 5501 to 5504.
[2] Appropriations (actual expenditures not yet available).
[3] Consists of trade in NIMEXE chs. 1 to 24, plus 4101, 5301 to 5305 and 5501 to 5504.
[4] Includes monetary compensatory amounts (MCA's) not included in individual categories above (383 million ECU's or $341 million).

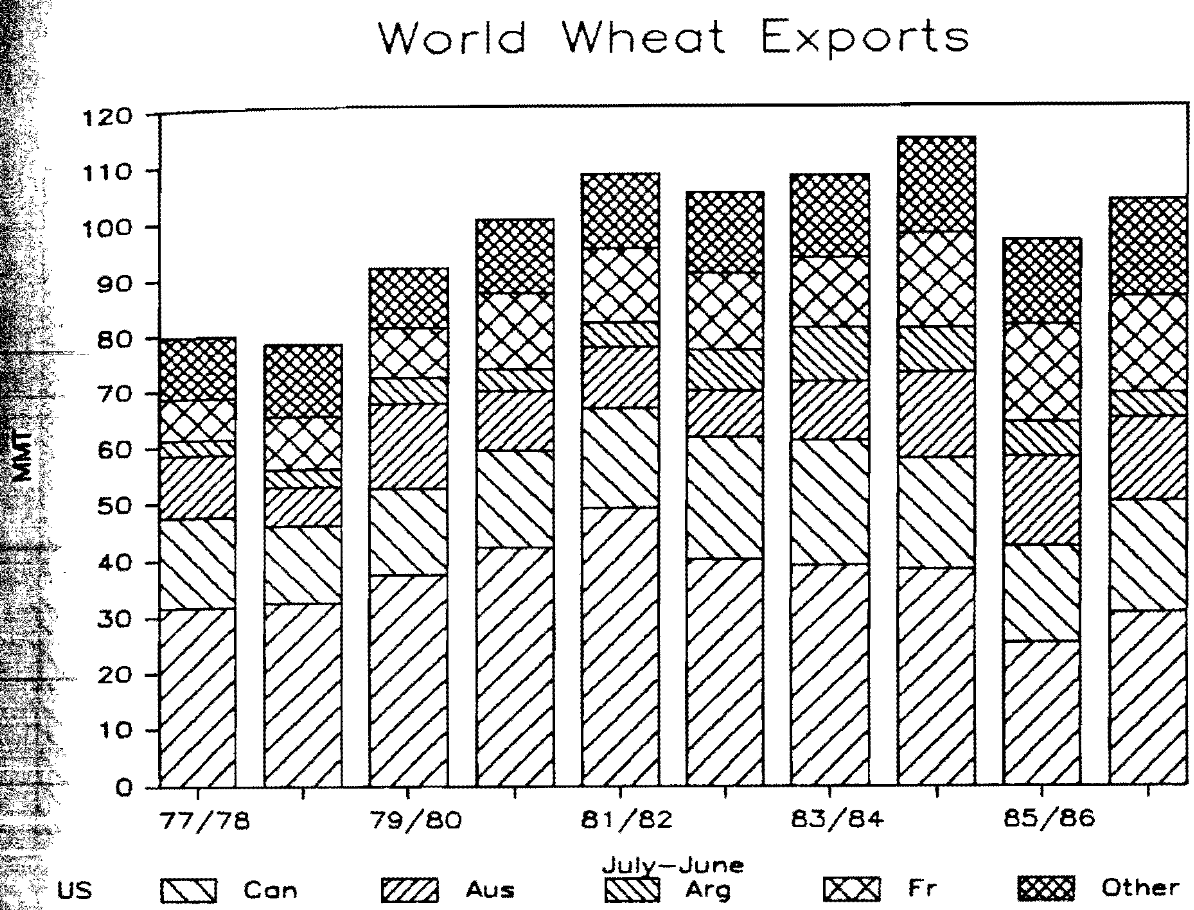
Source: Eurostat Nimexe (trade data) and EC Official Journal (export refunds). Converted to dollars from ECU's using 1 ECU=$.89.

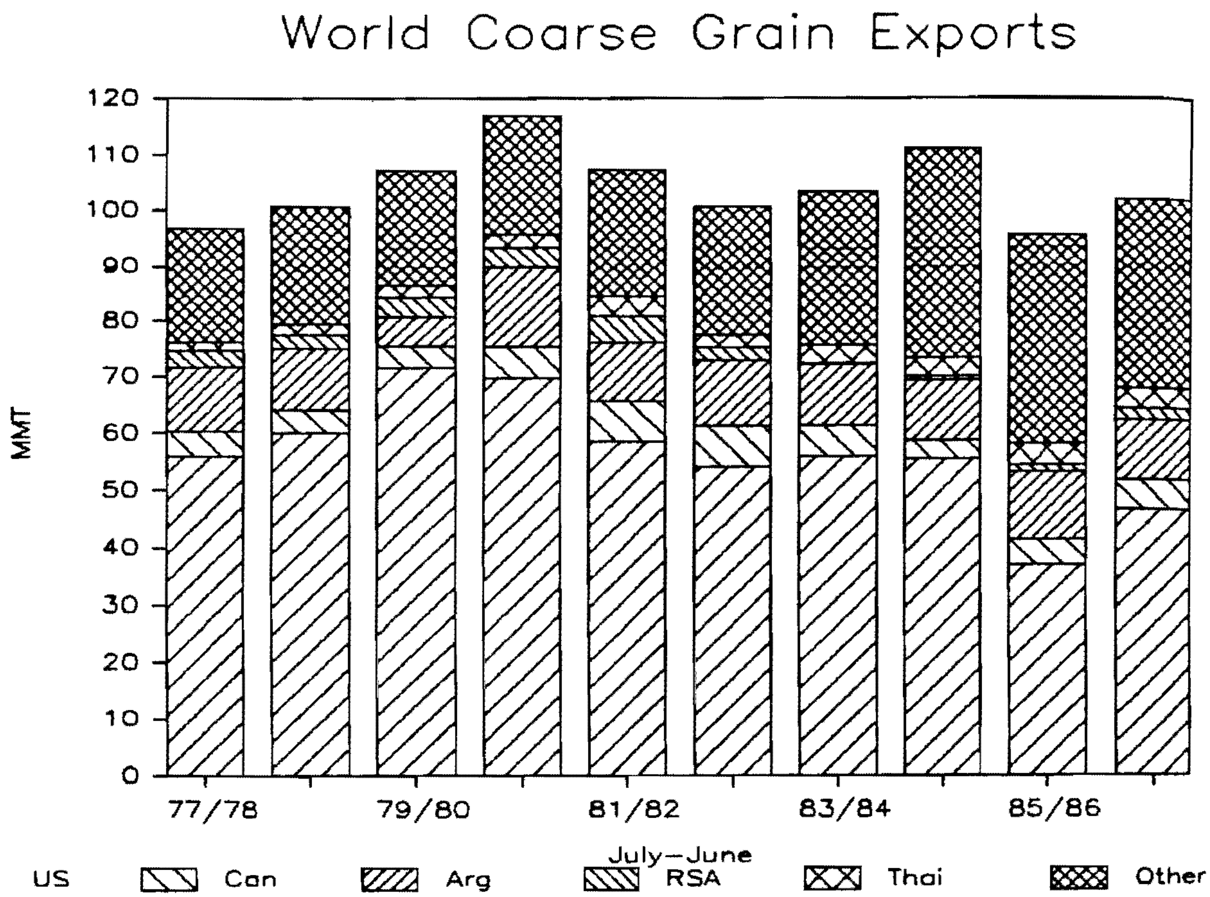
JAPANESE RICE EXPORT SUBSIDIES

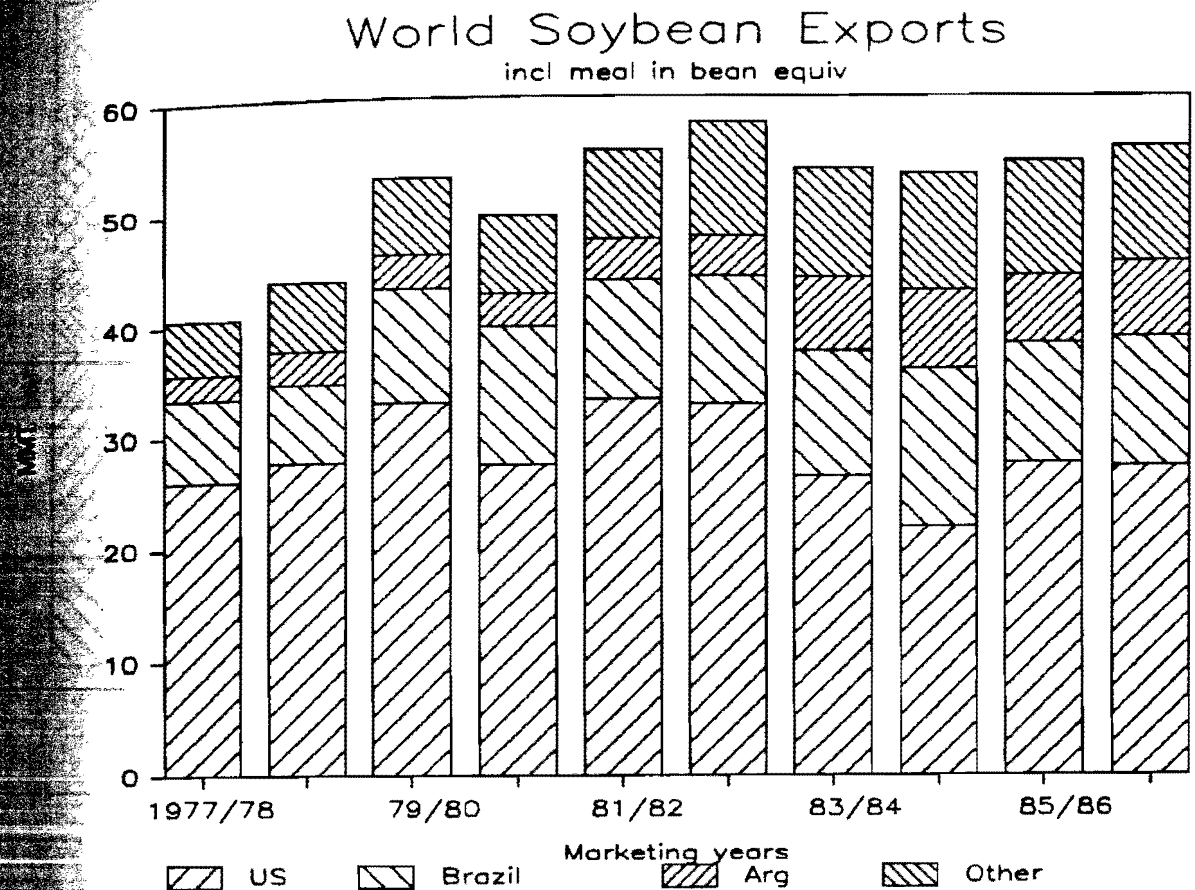
Calendar year	Producer[1] price ($/MT milled)	Export[2] price ($/MT milled)	Total[2] exports (1,000 MT milled)	Amount of subsidy ($/MT)	Annual[3] subsidy cost ($1000)
1983	1,405	337	239	1,068	255,252
1982	1,325	381	318	944	300,192
1981	1,478	479	193	999	192,807
1980	1,432	382	300	1,050	315,000
1979	1,451	283	168	1,168	196,224

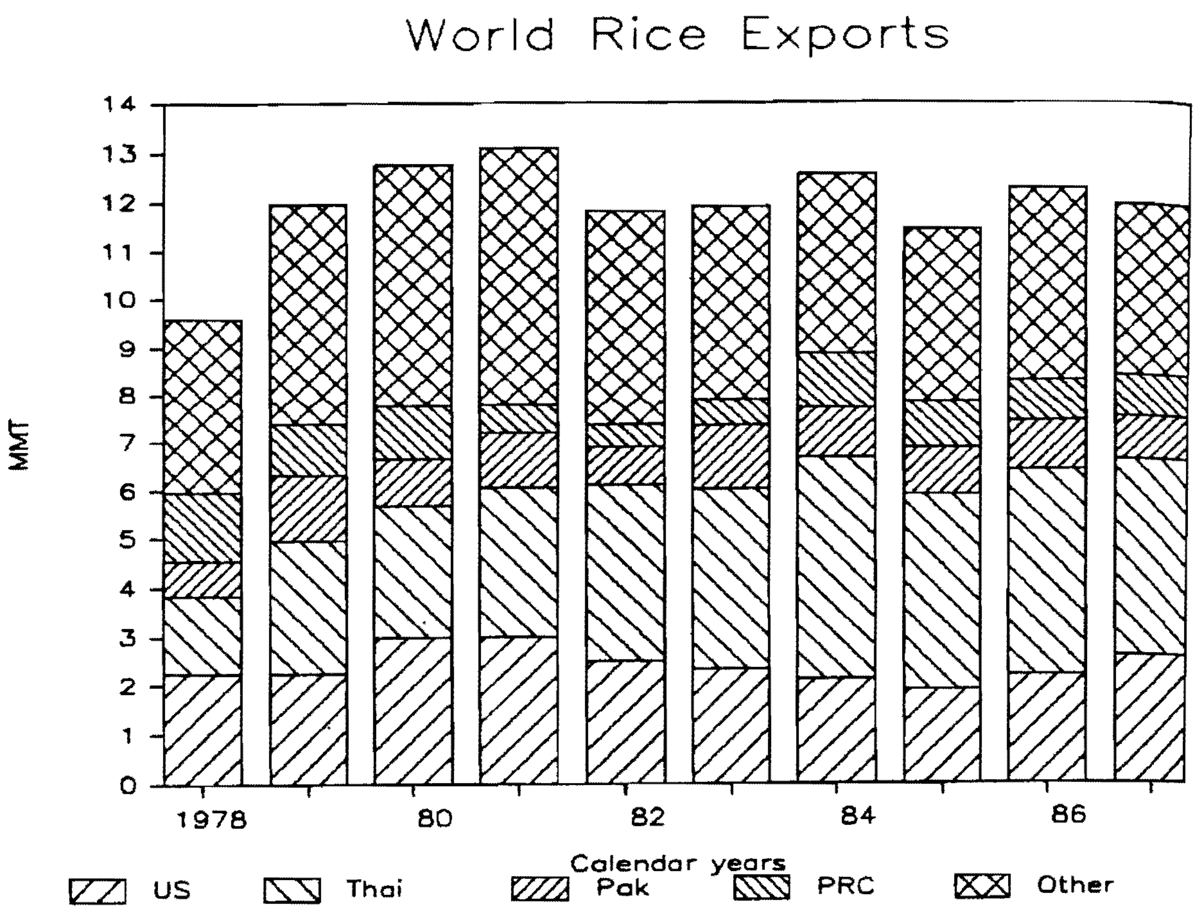
[1] Source: The 59th *Statistical Yearbook* of MAFF, 1982–83. Milled price calculated using a 0.91 conversion ratio.
[2] Source: Japan Exports & Imports, Commodity by Country, Japan Tariff Association, Various issues. Includes some food aid exports.
[3] Annual subsidy cost may be overstated, due to inclusion of food aid rice in total rice exports.

Note.—Values calculated utilizing the following exchange rates: 1983: $1 = 238 yen; 1982: $1 = 248 yen; 1981: $1 = 220 yen; 1980: $1 = 226 yen; 1979: $1 = 218 yen.

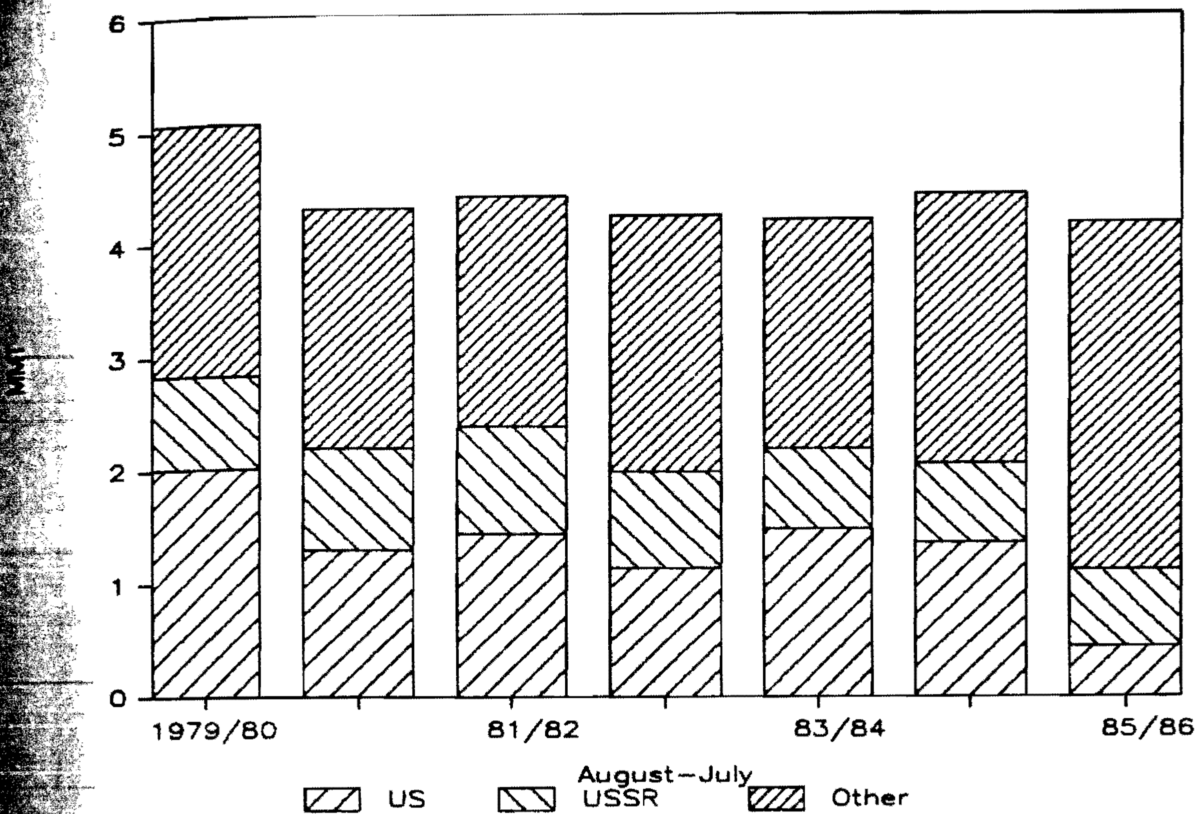

World Wheat Exports
MMT
120
110
100
90
80
70
60
50
40
30
20
10
0
77/78
79/80
81/82
83/84
85/86
July—June
US
Can
Aus
Arg
Fr
Other


World Coarse Grain Exports
MMT
120
110
100
90
80
70
60
50
40
30
20
10
0
77/78
79/80
81/82
83/84
85/86
July-June
US
Can
Arg
RSA
Thai
Other


World Soybean Exports
incl meal in bean equiv
MMT
60
50
40
30
20
10
0
1977/78
79/80
81/82
83/84
85/86
Marketing years
US
Brazil
Arg
Other


World Rice Exports
MMT
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
1978
80
82
84
86
Calendar years
US
Thai
Pak
PRC
Other

World Cotton Exports



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Aggressive Action To Meet
And Counteract The Effects
Of UnFair Foreign Trade Practices

Accompanying Information

On

Export Enhancement And

Targeted Assistance Programs

UNDER SECRETARY'S SUMMARY

EXPORT ENHANCEMENT PROGRAM
STATUS AS OF JULY 15, 1986

ANNOUNCED TO DATE	11,611,780 (GRAIN EQUIVALENT) 500 MILLION TABLE EGGS 43,000 TONS FROZEN POULTRY 38,000 HEAD DAIRY CATTLE 25,000 TONS VEGETABLE OIL
SOLD TO DATE	4,478,500 WHEAT 1,098,055 FLOUR (GRAIN EQUIVALENT) 200,000 BARLEY 28,000 FROZEN POULTRY 22,700 RICE 5,980 BARLEY MALT (GRAIN EQUIVALENT)
BONUS	1,973,300 TONS AT A BOOK VALUE OF $281.9 MILLION

ANNOUNCED INITIATIVES 37

COUNTRIES TARGETED: 19- ALGERIA, EGYPT, N. YEMEN, MOROCCO, TURKEY, JORDAN, PHILIPPINES, ZAIRE, IRAQ, NIGERIA, TUNISIA, BENIN, SYRIA, INDONESIA, YUGOSLAVIA, SAUDI ARABIA, SRI LANKA, ISRAEL, INDIA.

COMMODITIES TARGETED: 11- WHEAT, WHEAT FLOUR, RICE, POULTRY, BARLEY MALT, SEMOLINA, EGGS, DAIRY CATTLE, POULTRY FEED, BARLEY, VEGETABLE OIL.

EEP VS. TOTAL EXPORTS
(RELATES TO FY 86 EXPORT ESTIMATES)

VOLUME:

TOTAL WHEAT ANNOUNCED VS. TOTAL WHEAT EXPORTS	32%
TOTAL GRAINS ANNOUNCED VS. TOTAL GRAIN EXPORTS	15%
WHEAT SOLD VS. TOTAL WHEAT EXPORTS	18%

EXPORT ENHANCEMENT PROGRAM
STATUS AS OF JULY 15, 1986
(METRIC TONS)

ANNOUNCED INITIATIVES		DATE ANNOUNCED	QUANTITY	RESULTS
37.	INDIA VEGETABLE OIL	JULY 8, 1986	25,000	
36.	JORDAN BARLEY	JUNE 17, '86	60,000	
35.	ISRAEL BARLEY	JUNE 17, '86	200,000	
34.	TUNISIA DAIRY CATTLE	MAY 29, '86	4,000 HEAD	
33.	ALGERIA DAIRY CATTLE	MAY 29, '86	5,000 HEAD	
32.	SRI LANKA WHEAT	MAY 16, '86	125,000	SOLD 50,000
31.	SAUDI ARABIA BARLEY	MAY 7, '86	500,000	SOLD 200,000
30.	ALGERIA BARLEY	APR. 17, '86	500,000	
29.	MOROCCO DAIRY CATTLE	APR. 16, '86	4,000 HEAD	
28.	TURKEY DAIRY CATTLE	APR. 16, '86	5,000 HEAD	
27.	EGYPT DAIRY CATTLE	APR. 16, '86	6,000 HEAD	
26.	YEMEN POULTRY FEED	APR. 14, '86	150,000	
25.	YUGOSLAVIA WHEAT	APR. 10, '86 JUNE 24, '86	200,000 200,000	COMPLETE SOLD 120,000
24.	INDONESIA DAIRY CATTLE	APR. 9, '86	7,500 HEAD	
23.	SYRIA WHEAT	APR. 8, '86	700,000	
22.	BENIN WHEAT	APR. 7, '86	45,000	SOLD 10,000
21.	ALGERIA TABLE EGGS	APR. 4, '86	500 MILLION	
20.	IRAQ DAIRY CATTLE	APR. 4, '86	6,500 HEAD	
19.	JORDAN WHEAT	MAR. 19, '86 JUNE 20, '86	75,000 75,000	COMPLETE COMPLETE
18.	TUNISIA WHEAT	MAR. 18, '86	300,000	SOLD 50,000
17.	ALGERIA WHEAT FLOUR	FEB. 25, '86	100,000	
16.	ALGERIA SEMOLINA	FEB. 11, '86	250,000	

ANNOUNCED INITIATIVES	DATE ANNOUNCED	QUANTITY	RESULTS
15. PHILIPPINES WHEAT	JAN. 7, '86	150,000	COMPLETE (152,400)
14. ZAIRE WHEAT	DEC. 27, '85 MAY 15, '86	40,000 40,000	SOLD 35,000
13. NIGERIA BARLEY MALT	DEC. 10, '85	100,000	SOLD 4,400
12. IRAQ WHEAT FLOUR	DEC. 9, '85	150,000	SOLD 75,000
11. EGYPT POULTRY	NOV. 26, '85 MAR. 21, '86 JUNE 18, '86 JULY 8, '86	8,000 15,000 5,000 15,000	COMPLETE COMPLETE COMPLETE
10. ZAIRE WHEAT FLOUR	NOV. 18, '85 MAY 15, '86	64,000 30,000	SOLD 45,000
9. PHILIPPINES WHEAT FLOUR	NOV. 15, '85	100,000	SOLD 50,000
8. JORDAN RICE	NOV. 8, '85	40,000	SOLD 22,700
7. TURKEY WHEAT	OCT. 16, '85 MAY 8, '86	500,000 500,00	COMPLETE (506,600
6. MOROCCO WHEAT	SEPT 30, '85	1,500,000	SOLD 890,000
5. YEMEN WHEAT	SEPT 6, '85	100,000	SOLD 50,000
4. YEMEN WHEAT FLOUR	AUG. 20, '85 APR. 14, '86	50,000 100,000	SOLD 31,500
3. EGYPT WHEAT	JULY 26, '85 OCT. 30, '85 JUNE 24, '86	500,000 500,000 500,000	COMPLETE COMPLETE (512,500 SOLD 252,000
2. EGYPT WHEAT FLOUR	JULY 2, '85	600,000	COMPLETE
1. ALGERIA WHEAT	JUNE 4, '85 APR. 10, '86	1,000,000 1,000,000	COMPLETE

TE 07/17/86

FY 86 TEA RESOURCES

TARGETED EXPORT ASSISTANCE STATUS REPORT

AGREEMENTS SIGNED TO DATE:

COMMODITY	PARTICIPANT	AMOUNT $	CONTRIBUTION RATIO	DURATION	COUNTRIES
.Wood Products	American Plywood Association	$1,064,486	25%	01/01/86-12/31/86	Japan
Processed Peaches uit Cocktail	California Cling Peach Adv.Board	$2,500,000	Admin.Costs Only	03/13/86-09/30/86	Japan, Taiwan.
en Potatoes	National Potato Promotion Board	$2,000,000	Admin.Costs Only	03/24/86-09/30/86	HongKong,Japan, Malaysia,Singapore, Taiwan.
hell,Shelled Walnuts rocessed Products	Walnut Marketing Board	$7,000,000	Admin.Costs Only	04/15/86-07/31/87	Austria,Belgium, Denmark,Italy,Japan, Netherlands,Germany, Spain,Sweden,U.K., Switzerland.
Raisins	California Raisin Advisory Board	$6,300,000	20%	04/02/86-12/31/86	Austria,Bahrain,Japa Belgium,Denmark,Kore Finland,France,Kuwai HongKong,Indonesia,U Malaysia,Netherlands NewZealand,Norway, Italy,Oman,Philippin SaudiArabia,SriLanka Singapore,Spain, Sweden,Switzerland Taiwan,Thailand,Unit ArabEmirates,WGerman
lifornia Wines	Wine Institute	$2,300,000	35%	04/21/86-09/30/86	HongKong,Japan, Singapore, U.K..
ied Prunes	California Prune Board	$4,000,000	50%	05/13/86-07/31/87	Denmark,Finland,U.K. France,Italy,Norway, Netherlands,Sweden, Spain,W.Germany
California/Arizona Fresh and Processed Citrus	Sunkist Growers Inc. (EIP)	$7,933,000	25%(CCC will reimburse 75%)	05/15/86-10/31/86	Belgulm,Netherlands Japan,Taiwan,France, Korea, NewZealand, HongKong,Malaysia, Singapore,U.K..
Same as Above	Dole Food Company (EIP)	$525,000	25% same as Sunkist	05/15/86-10/31/86	Japan.

AGREEMENTS SIGNED TO DATE:

Page I, cont.

COMMODITY	PARTICIPANT	AMOUNT $	CONTRIBUTION RATIO	DURATION	COUNTRIES
Same as Above	Sun Pacific Shippers, Inc. (EIP)	$26,250	25% same as Sunkist	05/15/86-10/31/86	HongKong, Japan, Korea, Malaysia, NewZealand, Singapore, Taiwan.
Same as Above	Sun World, Inc. (EIP)	$15,000	25% same as Sunkist	05/15/86-10/31/86	Malaysia.
Same as Above	Sun Pacific Shippers, Inc. (EIP)	$26,250	25% same as Sunkist	05/15/86-10/31/86	HongKong, Japan, Korea, Malaysia, NewZealand, Singapore, Taiwan.
Same as Above	Sun World, Inc. (EIP)	$15,000	25% same as Sunkist	05/15/86-10/31/86	Malaysia.
Florida Fresh & Processsed Citrus	Florida Department of Citrus	$4,600,000	15%	06/20,86-09/30/86	France, HongKong, U.K. Italy, Netherlands, Japan, Korea, Singapor Taiwan, W. Germany.
	Page Total	$38,304,986			
	SUB.TOTAL	$38,304,986			

FY 1986 AGREEMENTS PENDING

COMMODITY	PARTICIPANT	AMOUNT $	CONTRIBUTION RATIO	DURATION	COUNTRIES
U.S.Almonds	Almond (EIP)	$900,000	10%		EC, Japan, Korea.
Feedgrains/Soybean/ Livestock	ASA/FGC/HFA.	$3,000,000	10%		Algeria.
U.S.Wheat	U.S.Wheat Associates	$1,100,000		Cameroon, Senegal,	Colombia,Ivory Coas Oman,Qatar,Bahrain, Kuwait,Egypt,Korea, Philippines,Taiwan, Brazil,Peru.
U.S.Poultry and Eggs and their further Processed Products	U.S.A.Poultry & Egg Export Council	$6,000,000			Japan,HongKong,Egy Singapore,Iraq,Kuw Saudi Arabia,Yemen, United Arab Emirat Bahrain.
Washington State Apples	Northwest Horticultural Council	$1,400,000	35%		U.K.,Taiwan,Malays Norway,HongKong,Gu Finland,SaudiArabia Sweden,Thailand,Qa Bahrain,Kuwait,Uni Arab Emirates.
U.S.Dry Peas & Lentils	U.S.A.Dry Pea & Lentil Council	$2,500,000	33%		Colombia, India,.. Belgium,Denmark,It Germany,Greece,Spa Luxembourg,France, Portugal,Ireland,U Netherlands.
	Page Total	$14,900,000			
	SUB.TOTAL	$53,204,986			

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Aggressive Action To Meet And Counteract The Effects Of Unfair Foreign Trade Practices

Accompanying Information On Section 301

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SECTION 301 TABLE OF CASES
Office of the United States Trade Representative
April 1986

Country and Product/Service Concerned	Complaint	Disposition or Present Status
Guatamala Cargo Preference (301-1)	Delta Steamship Lines, Inc. filed a petition on July 1, 1975, alleging that Guatemala's requirement "mandating certain cargo to Guatemala or associated line carriers" constituted a discriminatory shipping practice (40 FR 29,134).	We completed public hearings on Sept. 26, 1975. Following bilateral negotiations between petitioner and National Shipping Line of Guatemala, petitioner withdrew the petition. We terminated the investigation on June 29, 1976 (41 FR 26,758).
Canada Egg Quota (301-2)	United Egg Producers and American Farm Bureau Federation filed petitions on July 17 and 21, 1975, alleging that a Canadian quota on the importation of U.S. eggs constituted an unfair trade practice (40 FR 33,749).	As a result of bilateral negotiations, Canada approximately doubled its quota for imports of U.S. eggs. We terminated the investigation on March 14, 1976 (41 FR 9430).
EC Supplementary Levies on Egg Imports (301-3)	Seymour Foods, Inc. filed a petition on Aug. 7, 1975, alleging that changes in the EC's supplementary levies on imports of egg albumin impaired the ability of U.S. exporters to contract for sales in the EC (40 FR 34,649).	Following informal consultations, supplementary levies were replaced with increased import charges. However, since U.S. exports of egg albumin steadily increased, the Section 301 Committee determined that no further action was necessary. We terminated the investigation on July 21, 1980 (45 FR 48,758).
EC Minimum Import Price & License/Surety Deposit Systems on Canned Fruits, Juices and Vegetables (301-4)	The National Canners Association filed a petition on Sept. 22, 1975, alleging that the EC's minimum import prices and an import license/surety deposit system with respect to canned fruits, juices and vegetables constituted an unfair trade practice (40 FR 44,635).	We held public hearings on Nov. 17, 1975. We consulted under GATT Art. XXIII:1(c) on March 29, 1976. A GATT panel was appointed under Art. XXIII:2. As a result of the panel's report, the EC discontinued use of minimum import price mechanism. We terminated the investigation on Jan. 5, 1979 (44 FR 1504).
EC Subsidies of Malt Exports (301-5)	Great Western Malting Company filed a petition on Nov. 13, 1975, alleging EC subsidies on malt to third countries (40 FR 54,311).	In 1976, the EC reduced the subsidy. We terminated the investigation on the advice of the Section 301 Committee and with petitioner's agreement on June 19, 1980 (FR 41,558).

Country and Product/Service Concerned	Complaint	Disposition or Present Status
EC Export Subsidies on Wheat Flour (301-6)	Millers' National Federation filed a petition on Dec. 1, 1975, alleging violation by the EC of GATT Art. XVI:3 in using export subsidies to gain more than an equitable share of world export trade in wheat flour (40 FR 57,249).	We initiated an investigation on Dec. 8, 1975. We consulted under GATT Art. XXII:1 in 1977 and 1980, and had technical discussions in 1981. On Aug. 1, 1980, the President directed USTR to pursue dispute settlement (45 FR 51,169). The Subsidies Code dispute settlement process was initiated on Sept. 29, 1981. The Subsidies Code panel (established on Jan. 22, 1982) issued its conclusions on Feb. 24, 1983. The Code Committee considered the panel report on April 22, May 19, June 10, and Nov. 17, 1983
EC Variable Levy on Sugar Added to Canned Fruits and Juices (301-7)	The National Canners Association filed a petition on March 30, 1976, alleging that sudden changes in the variable levy assessed on sugars added to canned fruits and juices by the EC constitute unjustifiable and unreasonable import restriction and impair the value of GATT-bound tariff rates to the U.S. (41 FR 15,384).	Following consultations during the MTN, the parties reached an agreement on July 11, 1979, which changed the variable levy to a fixed 2% levy on sugar added. We terminated the investigation with the advice of the Section 301 Committee and petitioner's agreement on June 18, 1980 (45 FR 41,254).
EC Livestock Feed Mixing Requirement (301-8)	The National Soybean Processors Association and the American Soybean Association filed a petition on March 30, 1976, alleging that the EC's requirement that livestock feed be mixed with domestic nonfat milk constituted an unfair trade practice since it displaced other protein sources such as soybeans and cake imported primarily from the U.S. (41 FR 15,384).	We held a public hearing on June 22, 1976. The GATT panel appointed under Art. XXIII:2 met in February and March 1977. In the interim, the EC terminated its system. We terminated the investigation on Jan 5, 1979 (44 FR 1504).
Republic of China Tariffs on Major Home Appliances (301-9)	Charles C. Rehfeldt, Executive Vice-President of Lai Fu Trading Co., Ltd., filed a petition on March 15, 1976, alleging unfair trade practices by the Republic of China, in the form of confiscatory tariff levels on imports of major home appliances (41 FR 15,452).	We held public hearings on May 18, 1976. The Republic of China reduced subject duties. We terminated the investigation on Dec. 1, 1977 (42 FR 61,103).

Country and Product/Service Concerned	Complaint	Disposition or Present Status
EC and Japan Diversion of Steel to U.S. (301-10)	The American Iron and Steel Institute filed a petition on Oct. 6, 1976, alleging that the EC and Japan had engaged in an unfair trade practice by agreeing to divert significant quantities of Japanese steel exports to the U.S. (41 FR 45,628)	We held public hearings on Dec. 9, 1976. We terminated the investigation on Jan. 30, 1978, on the ground that there was not sufficient justification to the claim that the EC-Japan agreement created an unfair burden on the U.S. (43 FR 3962).
EC Citrus Tariff Preferences for Certain Mediterranean Countries (301-11)	Florida Citrus Commission _et al_. filed petitions on Nov. 12, 1976, alleging that the EC's preferential tariffs on orange and grapefruit juices and fresh citrus fruits from certain Mediterranean countries have an adverse effect on U.S. citrus exports to the EC (41 FR 52,567).	We initiated an investigation on Nov. 30, 1976. We held public hearings on Jan. 25, 1977. During the MTN, we obtained duty reductions on fresh grapefruit only. We held GATT Art. XXII:1 consultations in October 1980, followed by informal discussions. We held formal consultations under GATT Art. XXIII:1 on April 20, 1982. Conciliation efforts in September 1982 failed. On Nov. 2, 1982, the GATT Council agreed to establish a panel. The panel composition and terms of reference of the panel took some months to resolve. The panel met on Oct. 31 and Nov. 29, 1983, and Feb. 13 and Mar. 12, 1984. The factual portion of the panel report was submitted to the parties on Sept. 27. The full report was submitted on Dec. 14, 1984. The GATT Council considered the panel's findings and recommendations on March 12 and April 30, 1985, but the EC blocked any action. On April 30, the U.S. considered the dispute settlement concluded. On May 10 we held a public hearing on the substance of our recommendations to the President (50 FR 15,266). We transmitted our recommendation on May 30, and on June 20 the President determined that the EC practices deny benefits to the U.S. arising under the GATT, are unreasonable and discriminatory, and constitute a burden on U.S. commerce (50 FR 26,143). Effective July 6, the President imposed a 40% _ad valorem_ duty on pasta products not containing egg and a 25% _ad valorem_ duty on pasta products containing egg (50 FR 26,143). The EC reacted by raising duties on lemons and walnuts imported from the U.S., effective July 8. On July 19, USTR announced that in return for the U.S. suspension of increased duties on imported pasta, the EC would drop its proposed duty

Country and Product/Service Concerned	Complaint	Disposition or Present Status
		increases, reduce EC pasta export subsidies by 45%, and take steps to increase access to the EC market for U.S. citrus exports by Oct. 31. Because the EC did not increase our access to its citrus market by Oct. 31 as promised, we imposed the substantially higher duties on pasta imported from the EC on Nov. 1. The EC then counterretaliated and imposed higher duties on lemons and walnuts imported from the U.S. Consultations with the EC are continuing, but we have not yet resolved the matter.
Brazil, Korea and PRC Thrown Silk Agreements with Japan (301-12)	George F. Fisher, Inc. filed a petition on Feb. 14, 1977, alleging that Japanese agreements with Brazil, Korea and the PRC permitting imports of thrown silk effectively prevented the entry of such imports from the United States, and that this constituted discriminatory conduct (40 FR 11,935).	We held a public hearing on March 29, 1977. Following the failure of accelerated discussions with Japan, we filed a complaint under GATT XXIII:2. A dispute settlement panel heard the case in the fall, 1977. Before the GATT panel issued its report, Japan adjusted the restrictions. We terminated the investigation on March 3, 1978 (43 FR 8876).
Japan Leather (301-13)	The Tanners Council of America filed a petition on Aug. 4, 1977, alleging violation by Japan of GATT Art. XI in imposing quantitative restrictions on imports of leather from the U.S., and excessively high tariffs. (42 FR 42,413).	We initiated an investigation on Aug. 23, 1977. We initiated consultations under GATT XXIII:1 in January 1979, which resulted in an understanding to expand the quota on imported leather. In light of this understanding, the President decided not to take retaliatory action; however, on Aug. 1, 1980 (45 FR 51,171), he directed USTR to monitor implementation of the understanding. Since the results of the 1979-82 bilateral leather understanding were unsatisfactory, we decided to pursue GATT dispute settlement. We consulted under GATT Art. XXIII:1 on Jan. 27-28, March 30 and April 12, 1983. A dispute settlement panel under GATT Art. XXIII:2 was authorized on April 20, 1983. That panel heard the case in the fall and winter of 1983-84. In February 1984, the panel found that Japan's leather quotas violated GATT Art. XI and caused nullification or impairment of U.S. GATT benefits.

Country and Product/Service Concerned	Complaint	Disposition or Present Status
		The GATT Council adopted the panel report on May 16, 1984. We rejected as inadequate Japan's mid-1985 proposal to replace the quota by a high tariff. On Sept. 7, 1985, the President directed USTR to recommend retaliation unless we resolved the leather and leather footwear restrictions satisfactorily by Dec. 1. In December Japan agreed to provide about $236 million in compensation through reduced (or bound) Japanese tariffs. Japan implemented these tariff changes on April 1, 1986. On March 16 the U.S. raised tariffs on about $24 million in imports of leather and leather footwear from Japan, effective March 31.
USSR Marine Insurance (301-14)	The American Institute of Marine Underwriters filed a petition on Nov. 10, 1977, alleging that the USSR unreasonably required that marine insurance on all trade between the U.S. and the USSR be placed with a Soviet state insurance monopoly (43 FR 3635).	In June 1978, the President determined that the Soviet practice is unreasonable (43 FR 25,212). On July 12, 1979, we suspended the investigation pending review of the operation of the U.S.-Soviet agreement (44 FR 40,744). The suspension remains in effect (45 FR 49,428).
Canada Border Broadcasting (301-15)	Certain U.S. television licensees filed a petition on Aug. 29, 1978, alleging that certain provisions of the Canadian Income Tax Act were unreasonable in denying tax deductions to any Canadian taxpayer for advertising time purchased from a U.S. broadcaster for advertising aimed at the Canadian market, when deductions were granted for the purchase of advertising time from a Canadian broadcaster (43 FR 39,610).	We held public hearings in November 1978 and July 1980. The President determined on Aug. 1, 1980, that the most appropriate response was legislation to mirror in U.S. law the Canadian practice (45 FR 51,173). That proposal was sent to Congress on Sept. 9, 1980, and again in November 1981. Legislation was enacted on Oct. 30, 1984. Trade and Tariff Act of 1984, Sec. 232, Pub. L. No. 98-573.
EC Wheat Export Subsidies (301-16)	Great Plains Wheat, Inc. filed a petition on Nov. 2, 1978, alleging that EC export subsidies were enabling exports of wheat from the EC to displace U.S. exports in third country markets (43 FR 59,935).	We held public hearings in February 1979, and consulted with the EC in July 1979. Both parties agreed to monitor developments in the wheat trade, exchange information, and consult further to address any problems that might arise. We terminated the investigation on Aug. 1, 1980 (45 FR 49,428).
Japan Cigars (301-17)	The Cigar Association of America, Inc. filed a petition on March 14, 1979, alleging that Japan imposes unreasonable import restrictions, internal taxes or charges on imports in excess of those placed on domestic products, and discriminatory restrictions on the marketing, advertising, and distribution of imported cigars (44 FR 19,083).	During panel deliberations under GATT Art. XXIII:2 in March 1980, Japan repealed its internal tax on imported cigars and applied an import duty of 60% ad valorem. Prior to completion of panel action, the U.S. and Japan reached agreement that liberalized market restrictions and reduced the import duty. We terminated the investigation on Jan. 6, 1981 (46 FR 1389). GATT proceedings terminated in April 1981.

Country and Product/Service Concerned	Complaint	Disposition or Present Status
Argentina Marine Insurance (301-18)	The American Institute of Marine Underwriters filed a petition on May 25, 1979, alleging that Argentina's requirement that marine insurance on trade with Argentina insurance firm is unreasonable and burdens U.S. commerce (44 FR 32,057).	We initiated an investigation on July 2, 1979, and held a public hearing on Aug. 29, 1979. Upon Argentina's commitment to participate in multilateral negotiations, a goal of which was the elimination of restrictive practices in the insurance sector, we suspended the investigation on July 25, 1980 (45 FR 49,732).
Japan Pipe Tobacco (301-19)	The Associated Tobacco Manufacturers filed a petition on Oct. 22, 1979, alleging that Japan set unreasonable prices for imported pipe tobacco and restricted its distribution and advertising (44 FR 64,938).	In November 1979, we consolidated this case with 301-17 alleging identical practices with respect to cigars. We terminated the investigation on Jan. 6, 1981 (46 FR 1388).
Korea Insurance (301-20)	The American Home Assurance Company filed a petition on Nov. 5, 1979, alleging that the Republic of Korea was discriminating against petitioner by failing to issue a license permitting petitioner to write insurance policies covering marine risks; not permitting petitioner to participate in joint venture fire insurance; and failing to grant retrocessions from Korea Reinsurance Corp. to petitioner on the same basis as Korean insurance firms (44 FR 75,246).	On December 19, 1979, we initiated an investigation. On Nov. 26, 1980, we invited public comments on, <u>inter alia</u>, proposals for retaliation (45 FR 78,850). Beginning in June 1980, we held several rounds of consultations, resulting in Korea's commitment to promote more open competition in the insurance market. Upon withdrawal of the petition on Dec. 19, we terminated the investigation on Dec. 29, 1980 (45 FR 85,539) <u>See</u> Docket No. 301-51.
Switzerland Eyeglass Frames (301-21)	Universal Optical Co., Inc. filed a petition on Dec. 6, 1979, alleging that the Swiss Customs Service engaged in unreasonable practices by requiring an assay to be done to determine the gold content of the trim in eyeglass frame examples before their importation (45 FR 7654).	Petitioner withdrew its petition on Nov. 10, 1980. We terminated the investigation on Dec. 11, 1980 (45 FR 81,703).
EC Sugar Export Subsidies (301-22)	Great Western Sugar Company filed a petition on Aug. 20, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using export subsidies to obtain more than an equitable share of world export trade in sugar (46 FR 49,697).	We initiated an investigation on Oct. 5, 1981. We held a public hearing on Nov. 4, 1981. We consulted with the EC under Art. 12:3 of Subsidies Code on Feb. 16, 1982. The conciliation phase was completed by April 30, 1982. USTR submitted a recommendation to the President on June 7, 1982. On June 28, 1982, the President directed USTR to continue international efforts to eliminate or reduce EC subsidies (47 FR 28,361).

Country and Product/Service Concerned	Complaint	Disposition or Present Status
EC and Brazil Poultry Export Subsidies (301-23)	The National Broiler Council filed a petition on Sept. 17, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using export subsidies that displace U.S. poultry exports to third country markets (46 FR 54,831).	We initiated an investigation on Oct. 28, 1981. We consulted with the EC under Art. 12:3 of the Subsidies Code on Feb. 16, 1982. On June 11, we submitted requests for information under Art 17 of the Code to the EC and Brazil. USTR submitted a recommendation to the President on June 28, 1982. On July 12, the President Directed expeditious examination of Brazilian subsidies (47 FR 30,699). We informally consulted with Brazil on Aug. 30, 1982. We additionally consulted with the EC on Oct. 7, 1982. We held Art. 12 consultations with Brazil on April 1, 1983. We met with the EC and Brazil on June 23. Since these consultations did not resolve the problem, we requested conciliation. The Subsidies Code Committee held the first conciliation meeting on Nov. 18, 1983. Conciliation continued on April 4, May 4, June 20, and Oct. 16, 1984, and is still pending. We must submit recommendations to the President within 30 days of the conclusion of dispute settlement.
Argentina Hides (301-24)	The National Tanners' Council filed a petition on Oct. 9, 1981, alleging breach by Argentina of U.S.-Argentina hides agreement, and unreasonable restrictions on commerce imposed by Argentine hide export controls (46 FR 59,353).	We initiated an investigation on Nov. 24, 1981. We consulted with Argentina on Feb. 23 and April 15, 1982. We held a public hearing on Oct. 6, 1982, on a proposed recommendation to the President concerning termination (47 FR 40, 959). We agreed to terminate the Agreement effective Oct. 29, 1982, and the President increased the U.S. tariff on leather imports effective Oct. 30 (47 FR 49, 625). Petitioner withdrew its petition on Nov. 9, 1982. We terminated the investigation on Nov. 16, 1982 (47 FR 53,989).
EC Pasta Export Subsidies (301-25)	The National Pasta Association filed a petition on Oct. 16, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using pasta export subsidies to displace U.S. produced pasta in its home market (46 FR 59,675).	We initiated an investigation on Nov. 30, 1981. Beginning on Dec. 2, 1981, we consulted with the EC several times. On March 1, 1982, we referred this matter to the Subsidies Code Committee for conciliation. We later requested a dispute settlement panel, and on April 7 the Committee authorized its establishment.

Country and Product/Service Concerned   Complaint   Disposition or Present Status

Country and Product/Service Concerned	Complaint	Disposition or Present Status
		The panel began its work on July 12. On July 21, the President directed USTR expeditiously to complete dispute settlement (47 FR 31,841). The panel met again on Oct. 8 and issued factual findings on Jan. 20, 1983. At the EC's request, an additional panel meeting was held March 29. The panel report (3-1 in favor of the U.S.) was submitted to the Subsidies Code Committee May 19. The Committee considered the report on June 9 and Nov. 18, but deferred decision on adoption of the report. See Docket No. 301-11 for Presidential action affecting pasta in 1985.
EC Canned Fruit Production Subsidies (301-26)	The California Cling Peach Advisory Board et al. filed a petition on Oct. 23, 1981, alleging violation by the EC of GATT Art. XVI in granting production subsidies on EC member states' canned peaches, canned pears and raisins, that displace sales of non-EC products within the EC and impair tariff bindings on those products (46 FR 61,358).	We initiated an investigation on Dec. 10, 1981. We consulted with the EC under GATT Art. XXIII:1 on Feb. 25, 1982. We requested a dispute settlement panel under Art. XXIII:2 on March 31, 1982. On Aug. 17, 1982, the President directed USTR to expedite dispute settlement (47 FR 36,403). The panel met on Sept. 29 and Oct. 29, 1982. The panel report was submitted to the U.S. and EC on Nov. 21, 1983. The panel met again with the parties on Feb. 27, 1984. A revised panel report was submitted to both parties on April 27, 1984. An additional panel meeting was held on June 28. A final panel report was issued on July 20. The U.S. requested adoption of the panel report in GATT Council meetings of April 30, May 29, June 5 and July 16, but Council action was deferred because the EC was not yet ready to act on the report. On Sept. 7, 1985, the President directed USTR to recommend retaliation unless this case was resolved by Dec. 1, 1985. In December the EC agreed to eliminate the canning subsidies for canned pears.
Austria Specialty Steel Domestic Subsidies (301-27)	The Tool and Stainless Steel Industry Committee et al. filed a petition on Dec. 2, 1981, and refiled on Jan. 12, 1982, alleging that domestic subsidies for specialty steel industries in Belgium, France, Italy, U.K., Austria, Brazil and	We initiated an investigation on Feb. 26, 1982, with respect to allegations against Austria, France, Italy, Sweden, and the U.K. We consulted informally with those governments in March 1982. We held a public hearing on April 14, 1982. We

Country and Product/Service Concerned	Complaint	Disposition or Present Status
	Sweden violate the GATT and Subsidies Code, and that imports from those countries adversely affect the U.S. industry (47 FR 10,107).	consulted under the Subsidies code in October 1982. On Nov. 16, 1982, the President directed USTR to: (1) request the ITC to conduct an expedited investigation under section 201 of the 1974 Trade Act; (2) initiate multilateral and/or bilateral discussions aimed at eliminating all trade distortive practices in the specialty steel sector; and (3) monitor U.S. imports of specialty steel products subject to the sec. 201 investigation (47 FR 51,717). The ITC found injury. USITC Pub. 1377 (May 1983). Effective July 20, 1983, the President imposed a combination of tariffs and quotas (48 FR 33,233).
France Specialty Steel Domestic Subsidies (301-28)	_See_ 301-27.	_See_ 301-27.
Italy Specialty Steel Domestic Subsidies (301-29)	_See_ 301-27.	_See_ 301-27.
Sweden Specialty Steel Domestic Subsidsies (301-30)	_See_ 301-27.	_See_ 301-27.
U.K. Specialty Steel Domestic Subsidies (301-31)	_See_ 301-27.	_See_ 301.27.
Canada Railcar Export Subsidies (301-32)	The AFL-CIO _et al_. filed a petition on June 3, 1982, alleging that the Canadian Government's export credit financing for subway cars to be exported to the U.S. violates the Subsidies Code and is unreasonable and a burden on U.S. commerce (47 FR 31,764).	We initiated an investigation on July 19, 1982. We had already consulted with Canada under the Subsidies Code on July 5, 1982. We terminated the investigation on Sept. 23, 1982, because the same allegations were the subject of a CVD investigation (47 FR 42,059).
Belgium Specialty Steel Domestic Subsidies (301-33)	The Tool and Stainless Steel Industry Committee _et al_. filed a petition on June 23, 1982, alleging that domestic subsidies for Belgian steel production violate the GATT and Subsidies Code, and that imports of Belgian steel adversely affect the U.S. industry (47 FR 35,387).	We initiated an investigation on Aug. 9, 1982. We consulted under the Subsidies Code in October 1982. The Presidential determination of Nov. 16, 1982 (_see_ 301-27 above), covers this petition as well.
Canada Front-End Loaders Duty Remissions (301-34)	The J.I. Case Company filed a petition on July 27, 1982, alleging that Canada's regulations allowing remission of customs duties and sales tax on certain front-end	We initiated an investigation on Oct. 28, 1982, and held a public hearing on Dec. 14, 1982. We consulted with Canada under GATT Art XXII on Dec. 21, 1982. We must submit

Country and Product/Service Concerned	Complaint	Disposition or Present Status
	loaders violate the GATT and Subsidies Code, are unreasonable and discriminatory and burden and restrict U.S. commerce. Petitioner amended and refiled a petition on Sept. 13 (47 FR 51,029).	recommendations to the President within 30 days of the conclusion of dispute settlement.
Brazil Non-rubber Footwear Import Restrictions (301-35)	The Footwear Industries of America, Inc. *et al*. filed a petition on Oct. 25, 1982, alleging that import restrictions on non-rubber footwear by the EC and the governments of France, Italy, the United Kingdom, Spain, Brazil, Japan, Taiwan and Korea deny U.S. access to those markets, are inconsistent with the GATT, and are unreasonable and/or discriminatory and a burden on U.S. commerce (47 FR 56,428).	On Dec. 8. 1982, we initiated investigations of the alleged restrictive practices (other than allegations that GATT-bound tariffs are excessive) made against Brazil, Japan, Korea and Taiwan. We consulted under GATT Art. XXII on April 4, 1983. In November 1985, Brazil offered to liberalize its import surcharge and to reduce tariffs. We must submit recommendations to the President within 30 days of the conclusion of dispute settlement.
Japan Non-Rubber Footwear Import Restrictions (301-36)	*See* 301-35.	*See* 301-35. We consulted on Jan. 27, 1983, and requested GATT Art. XXIII consultations in February 1984. We consulted under Art. XXIII:1 in April 1985. In July 1985, we decided to proceed under Art. XXIII:2 and requested application of the conclusions reached by a dispute settlement panel in 1984 on the leather quota to the Japanese leather footwear quota as well (*See* 301-13). On Sept. 7, 1985, the President directed USTR to recommend retaliation unless we resolved the leather and leather footwear restrictions satisfactorily by Dec. 1. In December Japan agreed to provide about $236 million in compensation through reduced (or bound) Japanese tariffs. Also the U.S. has raised tariffs on about $24 million in imports into the U.S. of leather and leather goods from Japan (51 FR 9435).
Korea Non-Rubber Footwear Import Restrictions (301-37)	*See* 301-35.	*See* 301-35. We consulted on Feb. 5, 1983, and in August 1983. Korea has reduced tariffs on footwear items and removed all leather items from the import surveillance list. We must submit recommendations to the President within 30 days of the conclusion of dispute settlement.

Country and Product/Service Concerned	Complaint	Disposition or Present Status
Taiwan Non-Rubber Footwear Import Restrictions (301-38)	See 301-35.	See 301-35. We consulted with Taiwan on Jan. 17, 1983. On Dec. 19, 1983, the President determined that Taiwan does not impose unfair barriers on U.S. imports; he nevertheless directed USTR to pursue offers regarding marketing assistance for U.S. exporters (48 FR 56,561).
Korea Steel Wire Rope Subsidies and Trademark Infringement (301-39)	The Committee of Domestic Steel Wire Rope and Specialty Cable Manufacturers filed a petition on March 16, 1983, alleging that production and export of Korean steel wire rope is subsidized, that Korea limits imports of steel wire rope from Japan thereby causing diversion to the U.S. market, and that Korean rope producers are infringing U.S. trademarks (48 FR 20,529).	We initiated an investigation on May 2, 1983, with respect to claims of production subsidies. We held a hearing on June 2, and requested consultations under the Subsidies Code. Petitioner withdrew its petition on Nov. 29, 1983, and effective Dec. 15, 1983, we terminated the investigation (48 FR 55,790).
Brazil Soybean Oil and Meal Subsidies (301-40)	The National Soybean Processors Association filed a petition on April 16, 1983, alleging that the governments of Argentina, Brazil, Canada, Malaysia, Portugal and Spain engage in unfair practices, including export and production subsidies and quantitative restrictions that restrict U.S. exports of soybean oil and meal (48 FR 23,947).	On May 23, we initiated an investigation against Brazil, Portugal, and Spain. We held a public hearing on June 29 and 30. We consulted under Art. 12 of the Subsidies Code on Nov. 21. USTR submitted a recommendation to the President on Jan. 23, 1984; on Feb. 13, the President directed USTR to pursue dispute settlement procedures under the Subsidies Code (49 FR 5915). We have requested additional consultations. We must submit recommendations to the President within 30 days of the conclusion of dispute settlement.
Portugal Soybean Oil and Meal Subsidies (301-41)	See 301-40.	We consulted under GATT Art. XXII on Nov. 29, 1983. In June 1984, Portugal began lifting its restrictions on soymeal imports. We must submit recommendations to the President within 30 days of the conclusion of dispute settlement.
Spain Soybean Oil and Meal Subsidies (301-42).	See 301-40.	We consulted under GATT Art. XXII on Dec. 1, 1983. We must submit recommendations to the President within 30 days of the conclusion of dispute settlement.

Country and Product/Service Concerned	Complaint	Disposition or Present Status
Taiwan Rice Export Subsidies (301-43)	The Rice Millers Association filed a petition on July 13, 1983, which it withdrew on Aug. 26. It refiled on Sept. 29, 1983, alleging that Taiwan subsidizes exports of rice that restrict U.S. exports and burden the U.S. support program (48 FR 56,289).	On Oct. 11, 1983, we initiated an investigation. We consulted on Dec. 8-9, 1983, and Jan. 17-18 and Feb. 20-22, 1984. Based on an understanding reached during those discussions providing for limits on subsidized rice exports from Taiwan, petitioner withdrew its petition on March 9, 1984, and we terminated the investigation on March 22 (49 FR 10,761).
Argentina Air Couriers (301-44)	The Air Courier Conference of America filed a petition on Sept. 21, 1983, alleging that Argentina has acted unreasonably in granting exclusive control over the international air transportation of time-sensitive commercial documents to the Argentine postal system (48 FR 52,664).	On Nov. 7, we initiated an investigation and requested consultations. We consulted on March 22, 1984. We held a public hearing on proposals for action under sec. 301 on Oct. 24. On Nov. 16, 1984, the President determined that Argentine practices were an unreasonable restriction on U.S. commerce. He directed USTR to hold another consultation, as requested by Argentina, and to submit proposals for action under sec. 301 within 30 days. Prior to the 30-day period, Argentina lifted its prohibition for a 90-day period (49 FR 45,733). In March 1985, the restrictions were lifted permanently.
Taiwan Films (301-45)	The Motion Picture Exporters Association of America filed a petition on Dec. 19, 1983, alleging that Taiwan discriminates against foreign film distributors (49 FR 5404).	On Jan. 30, 1984, we initiated an investigation. Petitioner withdrew its petition on April 17, 1984, we terminated the investigation on April 26 (49 FR 18,056).
European Space Agency Satellite Launching Services (301-46)	Transpace Carriers, Inc. filed a petition on May 25, 1984, alleging that the member governments of the European Space Agency (ESA)--Belgium, Denmark, France, Germany, Ireland, Italy, the Neverlands, Sweden, Spain, Switzerland and the United Kingdom--and their space-related instrumentalities subsidize satellite launching services offered by Arianespace (49 FR 28,643).	On July 9, 1984, we initiated an investigation and requested consultations with the European Space Agency. We consulted on Nov. 12-13 and Dec. 17-18, 1984, and Feb. 21-22 and May 20, 1985. We consulted with Arianespace on May 21, 1985. On July 9, USTR submitted a recommendation to the President. On July 17, the President found that ESA's practices were not unreasonable (50 FR 29,631), and terminated the investigation.
EC Triple Superphosphate Water Solubility Standard (301-47)	The Fertilizer Institute filed a petition on Aug. 17, 1984, alleging that a technical water solubility standard for triple superphosphate adopted by the EC is inconsistent with the Standards Code.	On Oct. 1, 1984, we initiated an investigation. We consulted under the Standards Code on Dec. 5-6, 1984. We must submit recommendations to the President within 30 days of the conclusion of dispute settlement.

Country and Product/Service Concerned	Complaint	Disposition or Present Status
Japan Semiconductors (301-48)	The Semiconductor Industry Association filed a petition on June 14, 1985, alleging that the Japanese government has created a protective structure that acts as a major barrier to the sale of foreign semiconductors in Japan (50 FR 28,866).	We initiated an investigation on July 11, 1985. We asked parties to submit comments regarding the petition by Aug. 26, 1985. We consulted in August, September, November and December 1985. We held technical discussions in January and February, and consulted in Tokyo and in Washington in March. We held consultations in Washington on March 26-27. We must submit recommendations to the President on or before July 10, 1986.
Brazil Informatics (301-49)	On Sept. 16, 1985, we self-initiated an investigation at the President's direction into all aspects of Brazil's informatics policy, including investment restrictions, subsidies, and import restrictions (50 FR 37,608).	After extensive discussions with U.S. industry, we consulted with Brazil Feb. 1-5, 1986. We must submit recommendations to the President on or before Sept. 15, 1986. The Section 301 Committee currently is conducting an interim review.
Japan Tobacco Products (301-50)	On Sept. 16, 1985, we self-initiated an investigation at the President's direction of Japanese practices (including high tariffs, Japan Tobacco Institute's manufacturing monopoly, and distribution restrictions) that act as a barrier to U.S. cigarette exports (50 FR 37,609).	After discussions with U.S. industry, on Feb. 3, 1986, we requested consultations with Japan. We presented a lengthy questionnaire on Feb. 11, and held technical discussions Feb. 21. We raised this case during Sub-Cabinet meetings on Feb. 28, and consulted in Tokyo on March 4 and on April 16-17. We received answers to our questionnaire on March 21. We must submit recommendations to the President on or before Sept. 15, 1986.
Korea Insurance (301-51)	On Sept. 16, 1985, at the President's direction, we self-initiated an investigation of Korean practices that restrict the ability of U.S. insurers to provide insurance services in the Korean market (50 FR 37,609).	See 301-20. We consulted with Korea in November and December 1985 and February and March 1986. We must submit recommendations to the President on or before Nov. 3, 1986, if no resolution is reached.
Korea Intellectual Property Rights (301-52)	On Nov. 4, 1985, we self-initiated an investigation of Korea's lack of effective protection of U.S. intellectual property rights (50 FR 45,883).	We consulted with Korea in November and December 1985 and February and March 1986. We must submit recommendations to the President on or before Nov. 3, 1986, if no resolution is reached.

Country and Product/Service Concerned	Complaint	Disposition or Present Status
Argentina Soybeans and Soybean Products (301-53)	The National Soybean Processors Association filed a petition on April 4, 1986, alleging that the differential in Argentine export taxes (higher for soybeans than for soybean products) provides Argentine Crushers with an unfair cost advantage that burdens U.S. exports in third-country markets (51 FR 16,764).	We initiated an investigation on April 25, 1986. We have requested consultations with Argentina. In the notice of initiation we requested comments on certain economic issues relating to the investigation. We must submit recommendations to the President by April 25, 1987, if there is no resolution before that.
EC Enlargement (301-54)	On March 31, 1986, at the direction of the President we announced our intention to take action against the agricultural restrictions recently imposed by the EC following Portugal and Spain's accession to the EC.	A public hearing was held on April 17. Consultations are under way.
Taiwan Export Performance Requirements (307-1)	On March 31, 1986, at the direction of the President we self-initiated the first investigation under section 307 of the Trade and Tariff Act of 1984 concerning export performance requirements in the automotive sector (51 FR ________).	Written comments have been invited on issues in the investigation.

USE OF ALL EXISTING TOOLS TO EXPAND MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND PRODUCTS

USE OF ALL EXISTING TOOLS TO EXPAND MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND PRODUCTS

POLICY STATEMENT

The increasingly competitive environment which American agriculture faces in the markets of the world requires that government utilize all programs and policies reserved to it that are designed to expand overseas sales of U.S. agricultural commodities and products. Use of such programs and policies can offset the impact of temporary and variable macroeconomic factors, such as high dollar valuation, and build in long-term demand for U.S. agricultural exports. Competitor agricultural trading nations employ a variety of practices designed to facilitate expanded sales of commodities and value-added products. The Commission believes that the United States should do no less and commends the Congress for its attention to such matters in the 1985 Farm Act.

Greater attention should be given to the need to maintain or expand the budgetary resources of the federal government which serve export credit and other programs designed to enhance U.S. competitiveness in world markets. Management of such programs should allow for non-discriminatory treatment of traditional markets for U.S. agricultural commodities and products. Additionality should be achieved through substantial reliance on long-term market development strategies. Resources for export and market development-related programs of the United States Department of Agriculture, including the Foreign Agricultural Service (FAS) overseas market development program, should be maintained at levels that provide for expanded activity by USDA in matters of trade.

RECOMMENDATIONS

The Commission recommends:

1. **Export credit and enhancement programs contained in the 1985 Farm Act be funded at levels not less than those specified in the Act.**
2. **Management of such programs be improved to allow for a longer- term orientation, with appropriate attention given to the need to service traditional customers of U.S. agricultural commodities and products.**
3. **Programs of the U.S. Department of Agriculture (USDA), including the Foreign Agricultural Service (FAS) and the overseas market development program of the FAS, be funded at levels not less than those authorized and appropriated for such purposes in Fiscal Year 1986, or at a level consistent with the enhanced role of the Department of Agriculture, as recommended in other parts of this report.**
4. **New authority be granted to the Secretary of Agriculture to carry out additional responsibilities with respect to market development.**

Export Credit and Enhancement

Export credit and enhancement programs contained in the 1985 Farm Act should be funded at levels no less than those specified in the Act. Full use should be given to direct and guaranteed credit, including short-term and intermediate credit, blended credit, interest buy-down, and export payment in kind.

The Commodity Credit Corporation (CCC) Export Credit Revolving Fund should be fully funded. Consideration should be given to the use of Section 32 funds for purposes of export enhancement, as originally intended by Congress.

Improved Management

Export credits and other enhancements should be designed with the objective of competitiveness constantly in mind. Credit policies must be flexible, and fit the needs of the importer, exporter or commodity or product served by the program. Export credit and enhancement programs should be developed on a case-by- case basis.

Longer-term orientation should be given to export credits. Repayment terms should be flexible. Consideration should be given to partial repayment of loans in foreign currencies and incentives for early repayment, such as interest rate reductions and rebates.

In addition, consideration should be given to the possibility of authorizing the Secretary of Agriculture to offer a program of foreign exchange risk protection to Commodity Credit Corporation export credit recipients. The proposal would require the Commodity Credit Corporation to assume all or part of the risk to CCC export credit recipient nations associated with a rise in the value of the dollar. At the time a nation is extended CCC export credits or credit guarantees, USDA would establish a maximum dollar-value repayment rate relative to some index of foreign currencies such as the Trade Weighted Index or the World Bank's Standard Drawing Rights (SDR). If the dollar rose in value over the term of the loan or loan guarantee repayment period, the borrowing nation would only have to repay based on the dollar's value at the time the loan was extended. The Commodity Credit Corporation would assume the cost associated with the rise in the value of the dollar.

Export-PIK, if used for any other purpose than for retaliation to counter unfair trade practices, should be offered across the board without prejudice to traditional customers of United States agricultural commodities and products.

The United States should seek to eliminate the use of mixed credits and tied aid by other countries, or directly counter such practices in the absence of progress in this area.

Other Funding

Funding for international programs of the U.S. Department of Agriculture, including appropriations for the Foreign Agricultural Service (FAS), should be maintained at levels no less than those appropriated in Fiscal Year 1986, or at a level consistent with the expanded role of the Department of Agriculture, as recommended elsewhere in the Report.

The FAS overseas market development program should be protected from budget reductions contained in the President's Budget for Fiscal Year 1987. Spending in this area bears a cost-to-benefit ratio of 80 to 1. The advantages of reductions in such spending are clearly outweighed by the benefits of maintenance of current levels of such funding.

New Authority

The Secretary of Agriculture should be required to undertake the following new responsibilities in regard to overseas market development:

(a) The Secretary should be authorized to make available to cooperator organizations commodities owned by the Commodity Credit Corporation, which shall be used by such cooperators in demonstration projects designed to expand markets for U.S. commodities and products.

(b) The Secretary should be authorized to supplement commodities provided under P.L. 480 Title I agreements with an additional amount of bonus CCC-owned commodities, not to exceed 10 percent of the volume of commodities provided under the Title I, which shall be sold for foreign currencies with proceeds used by cooperator organizations to cover local market development costs.

(c) The Secretary should assign an agricultural marketing specialist or agricultural trade officer in each overseas post that offers short or long-term market potential and is not now covered by an Agricultural Trade Office, agricultural trade officer, or agricultural marketing specialist.

(d) The Secretary should expand and strengthen work with state departments of agriculture to better focus on states' work with companies in support of export efforts, including the stationing of marketing specialists in states or regions as part of the normal rotation of these specialists between Washington, DC, and overseas locations.

(e) The Secretary should be authorized to expand the number of agricultural counselors, attaches, assistant attaches, and other diplomatic representatives of USDA posted overseas, to provide enhanced trade policy and international economic information consistent with USDA's expanded trade role as recommended in this report.

(f) The Secretary should be authorized to contract with individuals for personal services abroad without regard to any provision of law regulating the making, performance, amendment or modification of contracts. Such individuals should not be regarded as employees of

the United States government under any law including but not limited to the laws administered by the Office of Personnel Management.

COMMENTARY

Commercial government export restitution and market development programs have been a feature of U.S. government policy since the 1950s, yet they have achieved greater prominence in recent years; first, in the overall context of declining U.S. competitiveness; second, in the context of debate on the 1985 Farm Bill; third, with regard to suspension of the blended credit program; and finally, and more recently, in respect to the proper administration of the export BICEP program.

Recent debate on the issue of export credits and enhancements has surfaced two fundamental questions: should government continue to assist the process of agricultural exports through credits and enhancements, and at what cost to the U.S. taxpayer? The Commission appreciates underlying sentiments and problems in both instances. In the best of all possible worlds, trade in agricultural commodities and products might not require government assistance. Budget outlays for such activities would not be warranted. Unfortunately, neither condition currently obtains. **Government export credits and enhancements are vitally needed, particularly in this time of transition to more competitive prices which should occur as a result of the changes contained in the 1985 Farm Act.** Such assistance does cost money, but only in the first year. Subsequently, the loans are repaid; or, if such assistance involves direct payments, such as payments in the form of commodities owned by the CCC, it can result in total economic benefits which far outweigh the initial investment of the federal government.

Of course, credits and enhancements are only one route to competitiveness. A proper relationship to world market prices must be maintained through the establishment of loan rates that complement rather than undercut the objective of U.S. price competitiveness in world markets. **Credits and enhancements are a tool in marketing. They facilitate sales that might not otherwise take place.** They represent the need to sell, even in the face of stiff competition or limitations on the ability of customers to purchase. **They are a vital part of our nation's trade policy arsenal.** In the current context, they have utility even beyond that recognized by the Congress and Administration. In recent years, the objectives of such programs have tended to be traded off in an effort to meet other goals which, in many cases, have had little or nothing to do with U.S. export competitiveness.

BACKGROUND

U.S. Export Promotion Tools: A Brief History

For more than 50 years, Congress has been passing laws to help the nation's farmers sell more overseas. A search through all the legislation designed to expand export sales reveals that there is little the USDA is not legally permitted to do – from selling through commercial trade channels to actually paying for a country to buy and try U.S. farm products.

Such programs have been catalogued in a recent study by the Economic Research Service of the U.S. Department of Agriculture, the text of which is incorporated in this report.[1]

As documented in the study, U.S. government export programs have been characterized by three basic objectives: (1) to lower export prices; (2) to expand export demand; and (3) to increase overseas market access for U.S. agricultural commodities and products. All these objectives have been pursued to some extent in government programs dating back to the 1920s.

U.S. export programs primarily have served agricultural policy objectives by promoting increased agricultural exports from the private sector. U.S. agricultural trade is carried out by private individuals and firms, and the U.S. government assists exports through programs designed to increase the quantity of U.S. commodities sold in international markets. At the same time, when Commodity Credit Corporation (CCC) inventories have become large, the government has reduced CCC stocks by releasing them directly to U.S. exporters for commercial sale, or for carrying out government-negotiated contracts under various government-financed programs.

Export market programs have included commercial and concessional credit programs, market development, barter, export payments, and foreign donation programs. In addition, the United States has sought to improve market access of U.S. exporters in international markets through multilateral negotiations (GATT), and by negotiation of multi-year bilateral trade agreements with countries such as the U.S.S.R. and the Peoples Republic of China.

Export policy instruments, listed by program title in Table 1, increase the demand for U.S. agricultural exports in three ways.

First, some types of export market programs lower the prices at which U.S. exporters can offer commodities on the world market. Programs to lower export prices have included cash or in-kind export payments, direct sales of CCC stocks for export at reduced prices, and outright donations. Direct payments and CCC sales at reduced prices have historically enabled U.S. exporters to sell at market-clearing export prices when U.S domestic prices were supported by relatively high non-recourse loan rates. In addition to lowering export prices, these programs also helped the CCC to reduce its inventories. Foreign donations, made for humanitarian purposes, are a more direct method for reducing CCC stocks.

Loan rates have also been reduced periodically to lower the export price and increase the quantity demanded. In this case, deficiency payments were made to farmers to offset the loss in income from the lower support price, and payments to exporters were discontinued.

Second, a variety of programs expand export demand. Their effect is to expand demand and thereby raise export prices to levels that are higher than price levels would be without the programs. Credit programs achieve this by providing dollar purchasing power at the time of the sale to countries that would otherwise not be able to buy because of foreign exchange or income constraints. Short-term credit is provided to countries that have cash flow problems, whereas long-term credit is targeted more to low-income countries with chronic foreign exchange problems. With the exception of the blended credit program, short-term credit is provided to eligible importing countries at commercial rates of interest. Long-term credit is provided at very low rates of interest with a grace period from three to ten years.

Barter exchanges also expand export demand through foreign exchange savings, and have been used by the United States on occasions when mutually agreeable two-way exchanges of goods could be arranged. Market development expenditures expand demand for agricultural exports over the longer term through a variety of techniques in importing counties that include advertising and other product promotion activities; technical assistance to improve productivity in industries such as baking, milling, or livestock feed compounding; and provision of information on product quality and pricing to importers.

Third, policies to promote market access increase foreign demand by lowering barriers to imports and increasing trade contacts. The United States has taken part in unilateral negotiations, concluded bilateral trade agreements, and has agricultural attaches in many countries. Removal of trade restrictions increases exports by allowing exports to compete on a more equal basis with competing products in importing countries, and by reducing incentives for countries to produce products which are more cheaply produced in other countries. To the extent that barter programs facilitated market access in countries that otherwise would not have traded with the United States, the effects from barter on U.S. trade are smaller to other types of bilateral trade agreements.

Tables 2 and 3 indicate the importance of export market programs in facilitating trade in various periods. During the late 1950s and early 1960s, exports under government-financed programs (PL 480, Section 416, and AID[2]) and commercial exports with export payments assistance averaged about one-half the value of total U.S. agricultural exports (Table 2)[3]. This proportion declined to 8 percent in the 1970s as changes in U.S. domestic policy favored commercial sales. It is not possible to determine the proportion of commercial credit and barter export sales that also received export payments assistance. However, Table 3 shows that commercial exports under credit and CCC barter programs increased from 5 percent during the late 1960s and early 1970s to 13 percent of com-

Table 1--U.S. export market policy instruments

EXPORT PRICE POLICY INSTRUMENTS

Export payment programs:
- P.L. 320, Section 32
- International Wheat Agreement
- CCC export payments in cash or in kind
- CCC sales at reduced prices 1/

Foreign donation programs:
- P.L. 480, Title II
- Agricultural Act of 1949, Section 416

Reduced loan rates

EXPORT DEMAND EXPANSION POLICY INSTRUMENTS

Concessional long-term credit:
- P.L. 480 nonconvertible currency sales 2/
- P.L. 480 dollar credit sales

Barter programs:
- P.L. 480 barter program
- CCC barter program

Commercial, short-term credit:
- Export-Import Bank loans and guarantees
- GSM-5 export sales credit program
- GSM-101, 102 credit guarantee programs
- Blended credit

Intermediate investment credit programs: 3/
- P.L. 480 nonconvertible currency loans
- GSM-201 intermediate credit
- GSM-301 intermediate credit

Foreign market development programs:
- Cooperator program
- Export incentive program
- Regional-State export groups
- Agricultural Information Marketing Service
- Government-sponsored exhibits
- Product testing activities
- Export trading company legislation

POLICY INSTRUMENTS TO INCREASE MARKET ACCESS

General Agreement on Tariffs and Trade (GATT)

Bilateral agreements

Attache contacts

1/ CCC direct sales to U.S. exporters, foreign governments, or voluntary agencies abroad. 2/ Foreign exchange credit. 3/ Intermediate-term credit programs were authorized by the 1978 Agricultural Trade Act to finance development of markets for breeding animals (GSM-201) and market infrastructure (GSM-301). A small GSM-201 program with Spain was funded in fiscal year 1980, and a small GSM-301 program with Israel was funded in fiscal years 1981 and 1982.

Table 2—U.S. agricultural exports: total, specified Government-financed programs, and commercial, selected years

Fiscal year	Exports under Government-financed programs: Title I 1/	Other 2/	Commercial exports: With export payments 3/	Without export payments	Total commercial exports	Total agricultural exports
	Million dollars					
Average:						
1956-60	710.4	685.0	980.0	1,717.2	2,697.2	4,092.6
1961-65	1,109.9	405.8	1,144.0	2,806.5	3,950.5	5,466.2
1966-70	927.8	294.4	1,087.4	4,143.8	5,231.2	6,453.3
1971-75	686.1	395.9	669.8	12,563.7	13,233.5	14,315.5
1976-80	761.3	680.3	--	27,732.1	27,732.1	29,173.7
1981	789.7	702.4	--	42,296.1	42,296.1	43,788.1
1982	722.3	467.4	—	37,904.6	37,904.6	39,094.5
1983	809.7	525.6	103.5	33,330.7	33,434.2	34,769.5
1984	762.7	719.4	4/	36,544.5	36,544.5	38,026.6

— = Program not in use.

1/ P.L. 480 Title I dollar credit and sales for foreign currencies (long-term credit).

2/ P.L. 480 Title II and Section 416 donations, P.L. 480 barter, and AID (Mutual Security Act) programs.

3/ CCC sales at reduced prices. Export payments under CCC and Section 32 programs.

4/ Does not include competitive-bid sales to African countries because these exports had not been shipped by the end of the 1984 fiscal year.

Table 3--Total U.S. commercial agricultural exports including credit sales and CCC barter, selected years

Fiscal year	Credit sales		CCC barter	Other commercial	Total commercial
	CCC 1/	Export-Import Bank 2/			
	Million dollars				
Average:					
1956-60	11.5	81.7	0	2,604.0	2,697.2
1961-65	68.1	70.0	35.9	3,776.5	3,950.5
1966-70	203.4	58.8	300.3	4,668.7	5,231.2
1971-75	1,067.3	81.8	626.5	11,458.4	13,233.5
1976-80	1,328.4	77.6	0	26,326.1	27,732.1
1981	1,873.0	48.0	0	40,385.9	42,296.1
1982	1,393.1	60.4	0	36,457.7	37,904.6
1983	4,069.1	91.7	0	29,273.4	33,434.2
1984	3,646.3	86.9	0	32,811.3	36,544.5

1/ Sales under GSM-5, GSM-101, GSM-102, GSM-201, and GSM-301 programs, and blended credit.

2/ Data from 1976 to 1984 are based on authorizations.

mercial sales in 1983. In 1983, a period of world economic recession and large U.S. supplies, sales under government-financed and commercial credit export programs increased to 16 percent of the value of total agricultural exports. The operation of specific U.S. agricultural export market programs and their use in U.S. agricultural trade since 1950 are discussed below.

Programs to Lower the Export Prices

Sale of CCC stocks for export at prices below those in the domestic market as well as cash or in-kind payments to exporters provided a means for the CCC to reduce its inventories when producer support levels were above market-clearing export prices. From 1956 to 1960, 54 percent of the value of commercial agricultural exports were marketed under these programs (Table 2). This proportion declined to 25 percent during the 1960s and to 5 percent during the early 1970s, when loan rates were brought more in line with market-clearing levels. **In addition, 50 to 80 percent of exports under government-financed programs, excluding donations, received export payments assistance during the 1960s.**

Export payments were discontinued in 1974, but were revived in 1983 with a wheat flour sale to Egypt, and in 1984 with CCC grain sales to African countries. Prior to 1974, export payments were made uniformly to exporters of eligible commodities, while recent export payments have been targeted to exporters for sales to specific countries or regions under particular circumstances.

CCC Sales at Reduced Prices

Until the inauguration of payment-in-kind export programs, the CCC sold the bulk of its commodities for export at competitive bid or announced export prices, which were often below domestic market prices. Sales were made from CCC stocks to private exporters for commercial export or for export under government- financed programs. The major problem with these programs was that the CCC became a major supplier of export commodities, and it incurred additional expenses for storing and transporting commodities before reselling to the private sector below acquisition cost. CCC sales to exporters for unrestricted commercial export were sharply reduced in the mid-to-late 1950s in order to promote sales from private stocks through in-kind export payments.[4]

A targeted, CCC competitive bid program was authorized by House Joint Resolution 493 in March 1984. This resolution authorized the CCC to make available up to $90 million worth of wheat, wheat flour, corn, and rice to private exporters for resale to African countries hard-hit by severe drought. Exporters negotiated sales with buyers in the eligible African countries, and then bid for the grain which was acquired by the CCC through its price support programs.

Export Payments

Export payment programs were designed primarily to encourage the movement of privately owned stocks of agricultural commodities into export channels. This process would reduce quantities taken over by the CCC under price support programs, lower storage costs, and raise domestic prices. Export payment programs were authorized by Section 32 of the Agricultural Adjustment Act of 1935 from 1938 to 1974; by the CCC for wheat under the authority of the International Wheat Agreement Act of 1949 from 1950 to 1966; and by the CCC under its permanent charter authority from 1956 to 1974. Section 32 provides the USDA with funds equal to 30 percent of the revenue duties collected on all imported commodities. This authority facilitated sales of commodities such as cotton, tobacco, grain, fruit, chickens, and eggs, among others. Before 1955, export payments under Section 32 averaged $20 to $35 million per year. The authority permitted private exporters to buy at domestic prices, sell at world prices which were often below U.S. price support levels, and receive the difference in cash from Section 32 funds.

Export payments were made for wheat obtained by U.S. exporters at the domestic market price and sold at a lower fixed international price under the International Wheat Agreement (IWA) from 1950 through 1967.[5] Cash payments were made until 1956, when the CCC implemented a payment-in-kind (PIK) export program for both IWA and non-IWA export wheat. The CCC PIK export payment program was later extended to cotton, rice, flaxseed, and linseed oil, and to

feed grains and dairy products for a few years. Under this program, payments were made in the form of commodity certificates which were redeemable for CCC-owned stock. The certificates were interchangeable between commodities and transferrable among holders; the certificates had stated dollar values and were freely traded. The PIK export program was discontinued in 1966 when the exhaustion of CCC-held inventories reduced the supplies available for the program. Cash payments were continued for wheat, tobacco, rice, and other commodities until 1974. In 1983, an export payment was made to U.S. wheat millers under an agreement between the United States and the Egyptian government that provided for the commercial sale and delivery of flour equal to 1 million metric tons of wheat to Egypt. The agreement stipulated that wheat flour would be purchased from U.S. millers on a tender basis at a suggested price of $155 per metric ton (compared with U.S wheat flour prices of $250-$260 per ton), with 77.5 percent of the purchase price eligible for CCC financing under the GSM-102 credit guarantee program. Wheat was released to flour millers from CCC stocks to enable millers to contract for sale and delivery to the Egyptian market at or below the suggested price without financial losses. As a result of the program, actual export flour prices averaged about $138 per ton of flour.

Foreign Donations

P.L. 480, Title II, authorized the use of CCC-held or private stocks for donation directly to foreign governments or through international agencies or U.S. voluntary agencies abroad. Since 1982, supplemental foreign donations of dairy products have been authorized by Section 416 of the Agricultural Act of 1949.[6] This authority was amended in 1984 to include wheat, but this provision was never activated. Foreign donations, which averaged about 20 percent of total P.L. 480 exports during the 1960s, increased to over 30 percent in the 1970s. Foreign donations fell from an average of 8.0 percent of total U.S. exports during 1956- 60 to 1.4 percent in 1976-80, but rose to 2.0 percent in 1984 with use of the Section 416 dairy provision.

Programs to Expand Export Demand

Demand expansion programs are primarily designed to raise the level of U.S. agricultural exports by easing financial constraints in importing countries and by helping U.S. producer groups or interested parties in importing countries to develop overseas markets. As shown in Table 4, which presents data on official export credit authorizations and expenditures on selected agricultural export market programs, **credit has been the mainstay of the U.S. export demand expansion strategy.** In the late 1950s and early 1960s, long-term credit sales to developing countries under Title I of P.L. 480 averaged about 19 percent of the value of total U.S. agricultural exports. In the seventies, short-term commercial credit programs became more important, financing about 5 to 8 percent of the value of total U.S. agricultural exports, as the proportion of exports marketed through commercial channels increased. To reduce federal outlays, the provision of direct short-term credit to importing countries was abandoned in favor of credit guarantees in the late 1970s. In 1983, exports with short-term credit increased to $4.1 billion, or 11 percent of the total value of agricultural exports, of which $1.0 billion was under the newly created blended credit program.

Export credit authorizations shown in Table 4 are a measure of the magnitude of government export promotion efforts. Since the government is a low-cost borrower of funds, official credits, whether loaned at or below market cost, provide a credit subsidy to the importer in most cases. This subsidy in turn makes the terms offered by U.S. exporters more competitive.[7] The amount of the credit subsidy depends upon the difference between the cost of funds otherwise available to the importer and the interest rate charged for official credit, and upon the term and grace period of export credit loans. The costs depend upon the interest rate charged for export credit. In the case of credit guarantees (GSM-101 and 102), actual government outlays occur only in the case of importer default.[8]

Throughout the 1950-84 period, more emphasis was placed on programs which facilitated the immediate movement of commodities through export channels. This is in contrast to

expenditures on market development, which promote exports over the longer term through investment in economic development in importing countries, and whose benefits have not been greatly understood.[9]

Concessional Sales under P.L. 480

The Mutual Security Act of 1951 authorized the sale of surplus agricultural commodities to friendly countries for local currencies. The Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) incorporated this concept to help develop and expand export markets for U.S. agricultural commodities. Under Title I of this law, sales were made from CCC inventories for nonconvertible local currencies.[10] The local currencies were deposited in a U.S.-owned account and used for a variety of purposes, including market development, procurement of services, strategic commodities, and military equipment, repayment of U.S. obligations abroad, the financing of educational exchanges, and for loans promoting multilateral trade and economic development in recipient countries. The terms of these loans from nonconvertible currency deposits were from three to ten years at market interest rates. However, the loans were repaid at a constant rather than market-determined exchange rate. With a depreciating currency, this provided a foreign exchange subsidy to the borrower.

Long-term dollar credit sales as acceptable payment for commodity exports were added to P.L. 480 in 1959.[11] Countries purchased agricultural commodities with loans at low interest rates, repaying in dollars or convertible local currencies, usually over a period of 20 to 40 years. Dollar credit sales were in addition to nonconvertible currency sales. In the 1960s, the objectives of P.L. 480 shifted from domestic commodity management to the use of privately owned or CCC-owned commodities to promote economic development in recipient countries, meet emergency food aid needs, and combat malnutrition abroad. In 1966, P.L. 480 was amended to provide for the transition solely to a program of concessional dollar sales on credit terms under Title I by the end of 1971.

Barter Programs

Provisions for barter programs were included in the permanent authority of the CCC and in Title III of P.L. 480, which authorized the exchange of CCC-owned commodities for strategic materials. The objective of barter programs was to reduce CCC inventories by exchanging agricultural commodities for goods and services required by the United States from abroad. Agricultural exports under barter programs averaged 5 to 6 percent of the total value of U.S. agricultural exports from 1954 to 1973.

From 1954 to 1962, the barter program operated under P.L. 480 authority, and involved exchanges of CCC-held commodities for strategic materials required for U.S. strategic stockpile. By 1962, changes in inventories exceeded minimum requirements in many cases, and the CCC's agricultural inventories had been greatly reduced. From 1963 to 1973, emphasis was placed on barter sales to offset part of the dollar drain from U.S. spending abroad. Barter agreements during this period relied upon commodities in exchange for foreign-produced supplies and services destined for overseas military installations and AID projects.

The United States signed barter agreements with Jamaica in February 1982, November 1983, and January 1984. The first two agreements provided for the exchange of Jamaican bauxite for U.S. nonfat dry milk, and anhydrous milk fat from CCC stocks, tin and tungsten from the U.S. strategic stockpile, and cash. The third agreement exchanged Jamaican bauxite for nonfat dry milk and butter oil.

Export-Import Bank Loans and Guarantees

The Export-Import Bank extended credit to foreign buyers when commercial credit could not be obtained as early as 1948. In 1963, the Bank initiated a system of guarantees against political and financial risk. Export-Import Bank loans and guarantees for agricultural exports have been a small proportion of Export- Import Bank lending, which has generally been extended for investment in development.

CCC Export Credit Sales Program

The CCC, under its permanent charter authority, made direct, short-term export credit loans to stimulate commercial exports of agricultural commodities, mainly grains, soybeans, tobacco, and cotton, from 1956 to 1980, and in 1984. The purpose of this program was to increase commercial sales above the level which

Table 4--Official export credit authorizations and expenditures on market development and export payments programs, 1956-83

Fiscal year	Demand expansion programs			Export payments 4/	Total outlays
	Short-term credit 1/	Long-term credit 2/	Market development 3/		
	Million dollars				
Average:					
1956-60	93.2	710.4	3.0	367.1	1,173.7
1961-65	138.1	1,109.9	8.2	645.1	1,901.3
1966-70	262.2	927.8	12.7	232.7	1,435.4
1971-75	1,149.1	686.1	12.3	199.4	2,146.9
1976-80	1,406.0	761.3	15.6	0	2,182.9
1981	1,921.0	789.7	22.9	0	2,733.6
1982	1,453.5	722.3	23.8	0	2,199.6
1983	4,160.8	809.7	27.1	20.0	5,017.6
1984	3,733.2	762.7	31.6	0	4,527.5

1/ CCC and Export-Import Bank credit programs. For credit guarantees, actual Government outlays occur only in the case of nonpayment.

2/ Long-term credit under P.L. 480 from table 2.

3/ Does not include cooperator contributions. Does not include regional-State export program data until 1978.

4/ CCC export payments, payments made under Section 32, and CCC export differentials (differences between U.S. domestic market price and the CCC sales price for commodities sold for export from CCC stocks).

would exist without the credit program by alleviating cash flow problems of importers and permitting exporters to meet credit terms offered by competitors. Under this programs, U.S. exporters sold agricultural commodities to importers on a deferred-payment basis for periods up to 36 months. In turn, the CCC reimbursed the exporter and held the note of the buyer. The CCC determined the interest rate paid by the importer. In the early years of the program, the interest rate charged borrowers was usually greater than the CCC's cost of borrowing from the Treasury. Later, the interest rate was set from 0.5 to 1.5 percentage points above the U.S. prime rate. In 1984, the interest rate was set 1.5 percent above the rates paid by the Treasury on 52-week Treasury bills.

CCC Credit Guarantee Program (GSM-101, GSM-102)

CCC credit guarantees have been available since 1979. Their purpose is to encourage U.S. agricultural exports at levels above those which would exist without the guarantees by shifting some of the risks usually associated with export transactions from the U.S. exporter to the CCC. The GSM-101 Program, in operation from 1979 to 1981, provided a guarantee against noncommercial risks, such as embargoes of imports, freezing of foreign exchange, revolutions, and wars. In 1981, commercial risk (that is, inability to pay for economic reasons) was added to the guarantee through GSM-102. The CCC now relies heavily on the GSM-102 guarantee program.

Under both programs, credit is provided through commercial institutions on a short-term basis, 6 to 36 months, at a cost of financing set by U.S. banks. The CCC reimburses the exporter from a portion of the exporter's account receivable in the event of nonpayment. Typically, the CCC guarantee covers 98 percent of the principal and interest up to 8 percent per year on the guaranteed amount of credit. The exporter pays a guarantee fee to the CCC prior to shipment which is usually added to the price of the commodity.

The CCC guarantee affects the terms of agricultural export sales in two ways. First, a U.S. government guarantee enables banks to provide financing in excess of country lending limits, and to offer longer credit terms than they normally would provide for agricultural commodities. Second, banks usually charge a lower rate of interest because of the guarantee.

Blended Credit

The blended credit program, begun in October 1982 and terminated in 1985, uses GSM-5 direct credit and GSM-102 commercial export credit guarantees. The credit is blended on a ratio of a minimum of four parts government-guaranteed credit (GSM-102) to one part interest-free, direct government credit (GSM-5). The program was initiated in response to the buildup of U.S. stocks in 1982. Blended credit promotes commercial agricultural exports by providing credit for up to three years at interest rates below normal commercial levels to buyers of U.S. agricultural products. The blended credits were targeted principally to developing countries for purchase of U.S. wheat, rice, corn, vegetable oil, soybean meal, and cotton in Fiscal Year 1983. In Fiscal Year 1984, blended credits were offered to countries such as Morocco, Tunisia, Algeria, and Egypt for purchase of wheat.

Export Market Development Programs

The cooperator program has been the major export market development program since 1956. The objective of this program has been to develop, maintain, and expand long-term commercial markets for U.S. commodity exports. The program was started in 1955 after the passage of P.L. 480, which provided the legislative foundation and an initial source of funds for the program. Through the cooperator program, the USDA's Foreign Agricultural Service (FAS) cooperates with U.S. nonprofit producer organizations and governments, firms, or trade associations of other countries. Currently, cooperators represent cotton, dairy products, poultry, fruit, vegetables, livestock and livestock products, tobacco, forest products, and seeds, in addition to grain and oilseeds. The type of activities used in the program varies among commodity groups. Rice promotion techniques are aimed at the final consumer, while grains activities have also included efforts to develop, to increase users in the marketing channel such as miller, bakers, and feedlot operators. Soybean export market development has been aimed variously at crushers, feeders, and household or industrial consumers.

Other market development programs include the export incentive program, initiated in 1971, which assists firms with promotion of branded, consumer-ready U.S. agricultural products for the period during which the product is being established in the market. FAS also cooperates with regional-state export groups to encourage suppliers with potential export capabilities to seek overseas markets. Support services are provided through seminars, market surveys, and other educational efforts. Agricultural trade offices were set up in 1978 in selected regions to facilitate export market development. In addition, FAS launched the Agricultural Information Marketing Service (AIMS) in 1984. The program provides, on a fee basis, the Trade Leads Service, a computer- based referral system that links the foreign market with domestic suppliers, provides a list of foreign importers, statistical trade information, and other services. Trade exhibits, catalog exhibits, and in-store promotions have also been used outside of the cooperator program. Finally, export trading company legislation was passed in 1982 to enable the private sector to develop trading companies for the export markets including the farm commodity market.

Programs to Increase Overseas Market Access for U.S. Agricultural Commodities and Products

Agricultural trade negotiations are an effort to improve market access by removing sovereign restrictions on trade that are constraints to increased U.S. commodity exports. Restrictions include tariff and nontariff barriers such as quotas, licensing requirements, state trading practices, variable levies, and domestically administered prices. Removal of agricultural trade restrictions in many cases requires a change in domestic agricultural policies. For this reason, earlier multilateral negotiations under the General Agreements on Tariffs and Trade (GATT), the Dillon Round ending in 1962, and the Kennedy Round from 1963 to 1967, made little progress in negotiating agricultural trade policies. The Common Agricultural Policy (CAP) of the European Community (EC) was being formulated in that period and was viewed as essentially nonnegotiable. The recent GATT negotiations, the Tokyo Round, from 1973 to 1979, made limited progress in lowering restrictions for particular commodities and countries.

The United States has also attempted to increase market access and stability for U.S. exporters by entering into bilateral trade agreements with the Soviet Union and the Peoples Republic of China.[12] The current Soviet trade agreement, the second consecutive agricultural trade agreement signed by the two countries, stipulates minimum purchase levels of wheat, feed grains, and soybeans from the United States over a period of five years starting from October 1983. The Chinese agreement stipulated minimum purchase levels of wheat and corn over a four-year period starting in 1981. Trade agreements are also used extensively by competitor countries such as Canada, Argentina, and Australia to promote their agricultural exports.

U.S. Export Market Programs, Domestic Programs, and International Markets

Export market programs are designed to raise export demand or to reduce export prices in order to increase exports and decrease excess supplies. The export market programs have been used as policy instruments along with domestic market programs to regulate commodity supply and demand in order to achieve agricultural capacity, support producer income, and assure consumers an adequate food supply while minimizing surpluses and government expenditures. Producer income has been maintained by domestic price and income policies, but the result has often been over- supply and surpluses, except in period of strong export demand such as the mid-1970s. The export market programs have been used to decrease excess supply during periods of surplus, and to support further the market price in periods of strong demand. Thus, a combination of domestic and export market programs has been used at least since the 1950s to regulate supply, demand, and farm prices.

Until 1962, domestic farm price supports tended to be unresponsive to world market conditions. The combination of high, supported domestic prices and increasing yields resulted in large stocks of commodities. Domestic efforts to reduce surpluses relied on acreage control programs and marketing restrictions for some

commodities. Export market programs were initiated mainly for the purpose of dispersing large surpluses. The export market strategy was based on nonconvertible currency concessional sales, export payments, CCC direct sales, and barter programs. Direct, short-term credit loans to alleviate cash flow problems of the more-developed purchasing countries and market development programs were also instituted during this period.

In the early 1960s, support prices for most commodities were reduced, production adjustment controls were used, and farm income was supported with income payments for producers. Domestic prices were generally low enough for coarse grain and cotton exports to compete in world markets. As CCC-held stocks declined, export programs became more oriented toward generating dollar sales. Dollar credit sales under P.L. 480 increased as nonconvertible currency sales declined. More emphasis was also placed on expenditures for increased commercial exports in the late 1960s. With lower support prices and increased commercial exports, target income payments were used to maintain farm income.

During the 1970s, rapid growth in world population and income, the devaluation of the dollar in 1971 and again in 1973, crop shortfalls, and decision on the part of the Soviet leadership to begin importing large amounts of grain from the United States, combined to eliminate domestic surpluses of most agricultural commodities. The value of agricultural exports increased from $7.0 billion in Fiscal Year 1970 to about $43.8 billion in Fiscal Year 1981, and the volume more than doubled. A target-price and deficiency-payment program supported producer income during this period. This program permitted loan rates to be set at or less than world market levels, and thus, it represented an alternative to the export payments and high support prices that had been used up to this time. Market prices were supported by strong commercial demand, and by U.S. programs to make the private sector more competitive in international trade. Barter, nonconvertible currency P.L. 480 sales, and export payments were phased out as the strong foreign demand substituted for these programs in meeting agricultural policy goals. Dollar credit was retained to facilitate increased export sales.

As demand strengthened, banks became more accustomed to country borrowings with government guarantees and there was an increased supply of money from oil revenues (petrodollars) after 1973. As a consequence, the short-term direct credit program was changed to a credit guarantee program in the late 1970s in order to reduce direct federal outlays on credit. The Agricultural Trade Act of 1978 legislated expansion of the agricultural attache program and establishment of 6 to 25 trade offices around the world. Representation was elevated to the level of counselor in several cases. Authority for a revolving fund to finance agricultural exports was also legislated in the Agriculture and Food Act of 1981, but this provision was never funded.

Due to a number of factors, including world recession and a strong U.S. dollar combined with high U.S. nonrecourse loan rates, the value of U.S. agricultural exports declined from $43.8 billion in Fiscal Year 1981 to $39.1 billion in Fiscal Year 1982, with a further drop to $34.8 billion in 1983. By October 1983, CCC stocks of wheat and feed grains had increased to a record level of 140 million metric tons. Increased authorization for short-term credit guarantees, a new blended credit program, export payments, and sales of CCC stocks were implemented to increase exports.

RECENT PROGRAMS AND PROBLEMS

Congress and the Administration have, since 1982, been attempting to address some problems associated with declining agricultural exports through expanded use of government export credit and enhancements. The programs contained in the 1985 Farm Act represent the latest in a series of such programs reaching back to provisions of the 1982 Reconciliation Act. **However, all such programs have come under pressure in recent years as a result of (1) continued concern about increases in federal spending; (2) questions associated with the management of such programs; and (3) in the case of the blended credit programs, interference in its operation as a result of the continuing impasse over the issue of cargo preference.**

The 1985 Farm Act

Public Law 99-198, the Food Security Act of 1985, was signed into law on December 23, 1985. Among its 17 titles was an extensive title dealing with trade – Title XI. This title contains a number of provisions designed to meet subsidized competition, develop new markets, and provide food assistance to deficit countries. It includes reauthorizing such longstanding export assistance programs as Public Law 480 (Food for Peace) and establishing the Targeted Export Assistance Program. It also provided continued support for several export assistance programs such as short-term export credit guarantees (GSM-102) and the Export Enhancement Program, which was initiated as a result of budget negotiations in May 1985. The bill also mandated an intermediate credit guarantee program, a new export assistance program to promote the export of meat and dairy animals, and a pilot barter program.

Once enacted into law, it became the responsibility of the U.S. Department of Agriculture to implement and administer all of these export assistance programs. Within USDA, the Foreign Agricultural Service (FAS) has the lead role in developing and executing the programs and initiatives outlined by Congress in Title XI. In this context, FAS is working on many fronts to bring the wide array of programs into operation. When fully operational, these programs will provide approximately $8 billion worth of government assistance to facilitate increased agricultural exports. This amounts to nearly a third of the projected value of U.S. agricultural exports in Fiscal Year 1986.

Longstanding Programs

The Food Security Act of 1985 reauthorized and added new activities to one of the oldest U.S. export assistance programs - - Public Law 480, Food for Peace. Thus far in Fiscal Year 1986, agreements under the P.L. 480, Title I program, have been signed with 23 countries. Seven commodities valued at $864 million are covered by these agreements. Seven other agreements – covering commodities worth $111 million – are also in the negotiating stage.

The Farm Bill authorized a new activity – the Local Currency Initiative – under the authority of Public Law 480 to generate economic growth via the private sector in recipient countries. To achieve this goal, sales of U.S. farm products for local currency have been reinstated. These local currencies, which will be owned by the U.S. government, will be loaned to private financial intermediaries in the Title I countries, who will then re-lend them to the local private sector. The procedures for this new program are being developed and country programs may be under way the end of this fiscal year or early next year.

Another new program, Food for Progress, is to be carried out using the authority of P.L. 480 or Section 416. The program will provide at least 75,000 tons of commodities to needy countries – mainly in Africa – to encourage agricultural reform. Negotiations are already underway for two Food for Progress programs and agreements may be signed shortly. At least 60,000 metric tons of Section 416 commodities will be provided in agreements under this program between July and the end of the fiscal year in September.

The Farm Bill includes several major amendments to Section 416 of the Agriculture Act of 1949. It expanded the list of eligible commodities to include all edible commodities held by the CCC. It established minimums to be made available on an annual basis by the Secretary of Agriculture as follows: 500,000 tons of grains and oilseeds and 150,000 tons of dairy products.

Commercial Export Credit Programs

The Food Security Act of 1985 also makes available $5 billion annually for the Export Credit Guarantee Program (GSM-102), which has been in operation since the late 1970s. This program guarantees repayment of short-term loans made to eligible countries that purchase U.S. farm products. Through June, FAS had announced the availability of $3.9 billion worth of short-term guarantees for 25 countries and 29 commodities. The value of the guarantees authorized represents 14 percent of the projected value of total U.S. agricultural exports in fiscal 1986. However, the share is higher for U.S. grains – 52 percent for rice, 37 percent for wheat, and 16 percent for feed grains.

The Food Security Act of 1985 also specified that $500 million be made available for implementation of an Intermediate Credit Guarantee Program (three to ten-year loans). This program is designed to help developing nations make the transition from concessional to cash customers. FAS has been working closely with the U.S. financial community as well as prospective clients of this program to develop workable rules for the implementation and administration of this program. Rule proposals have been published and public comments have been reviewed. Several authorizations should follow shortly.

<u>Programs to Counter Unfair Foreign Trade Practices</u>

The Food Security Act of 1985 endorsed several export assistance programs implemented by USDA in recent years specifically to counter or offset the adverse effects on U.S. agriculture of unfair trade practices on the part of competitors.

The Export Enhancement Program, announced by USDA in May 1985, was extended through 1990 by the 1985 act. As later amended in March 1986, USDA is authorized to use at least $1 billion worth of CCC-owned commodities as export bonuses through Fiscal Year 1988 to make U.S. commodities more competitive in the world marketplace, and to offset the adverse effects of unfair trade practices or subsidies.

Since the Export Enhancement Program was initiated last year, 37 initiatives have been announced with 18 countries. More than 11 million tons of commodities, including 8.5 million tons of wheat and wheat flour, 1.3 million tons of barley, 250,000 tons of semolina, 150,000 tons of poultry feed, 100,000 tons of barley malt, and 40,000 tons of rice have been designated for specific countries. In addition, the program has also included 500 million table eggs, 28,000 tons of frozen poultry, and 38,000 dairy cattle.

The volume of the ten commodities covered by these export enhancement initiatives represents roughly a tenth of the projected volume of total U.S. agricultural exports in Fiscal Year 1986, including almost a third of the projected level of U.S. wheat sales. The book value of the bonuses offered three- quarters of the way through the fiscal year was $264.3 million, more than three-quarters of the $333 million target for the first year of the three-year program.

The Targeted Export Assistance Program, mandated in the Food Security Act of 1985, is another program in which the administration is directed to assist U.S. exporters in countering the effects of unfair trade practices on the part of foreign competitors or importers. The new program provides that financial support may be in the form of either cash or commodities – the latter is the new feature. A support level of $110 million is specified for each fiscal year through 1988, and $325 million annually in the succeeding two years. Through June, FAS had announced 11 targeted export assistance programs for 14 commodities.

<u>Meat and Dairy Programs</u>

Several new export initiatives outlines in the 1985 Farm Bill are tied to the implementation of the Milk Production Termination Program. The Food Security Act directed the USDA to purchase 200 million pounds of red meat for export during the 18-month duration of the program.

Through the end of June 1986, USDA had sold 198.4 million pounds (90,000 metric tons), carcass weight equivalent, of beef to Brazil. It has also agreed to provide the Department of Defense with up to 44 million pounds (20,000 metric tons) of red meat between July 11, 1986 and October 1, 1987, to supply military commissaries overseas. Discussions continue between USDA and the Defense Department regarding exact quantities, delivery periods, and specifications.

In addition, USDA has invited European importers to bid for 10,000 tons of high-quality U.S. beef under the annual quota available to the United States in the European Community. All bids under the first round of invitations were rejected; however, a second invitation has been issued and bids under this round were due to USDA in mid-July.

Other actions taken by USDA to offset the impact on red meat supplies include the announcement of export enhancement initiatives for 38,000 head of dairy cattle to a number of countries and the authorization of $50 million in GSM-102 credit guarantees to Mexico for the

purchase of dairy breeding stock.

The 1985 Farm Bill encourages USDA to use at least 15 percent of export enhancement bonus funds or commodities to promote the export of poultry, beef, pork, or meat product exports. Thus far, export bonuses worth $20.2 million have been provided to promote the sale of 28,000 metric tons of poultry to Egypt.

The 1985 Farm Bill also directs the export of at least 300,000 tons of surplus CCC-owned dairy products annually. The Dairy Export Incentive Program mandates that CCC operate a program during February 21, 1986, and September 30, 1989, and make payments (either in cash or CCC-owned commodities) on a bid basis to entities that sell U.S. dairy products for export. Export sales under the program must be additional and not displace commercial export sales. A *Federal Register* notice was issued on March 3, 1986. Further announcements on this program are expected by July 17, 1986.

The Mandated Dairy Sales Program requires that in each of fiscal years 1986-1988 the CCC export not less than 150,000 metric tons of CCC-owned dairy products. Of the 150,000 tons, not less than 100,000 tons is to be butter and 20,000 tons will be cheese. These CCC sales cannot disrupt domestic U.S. markets or world prices and patterns of commercial trade. Thus far under this provision, 104,600 tons of nonfat dry milk and 3,000 tons of butter/butter oil have been sold. Brazil tendered on June 12 for 43,000 tons of nonfat dry milk and the CCC offered 41,000 tons. That offer is still being negotiated.

The 1985 Farm Bill encourages the development of barter arrangements with other countries. Specifically, the bill states that the Commodity Credit Corporation should, at the request of the Secretary of Energy, make available $300 million in CCC-owned agricultural commodities annually over the next three years to acquire petroleum products abroad for the Strategic Petroleum Reserve. FAS is working with the Department of Energy at this time on the possibility of conducting such a barter arrangement with Mexico. However, there are still some obstacles that must be overcome by the Department of Energy before an arrangement with Mexico can be formally concluded.

In summary, the export provisions contained in the Food Security Act of 1985 are facilitating the movement to overseas destinations, through commercial channels of significant quantity of U.S. farm products. However, most U.S. agricultural exports – nearly $20 billion or over two-thirds – are moving without government assistance.

The goal of the 1985 Farm Bill, despite the main export assistance programs it authorizes, is to promote larger U.S. agricultural exports while reducing the need for U.S. government assistance in coming years. While it also provides programs to counter unfair foreign trade practices, the bill's market- oriented approach to trade reflects the belief that government export assistance programs cannot replace the need for U.S. agriculture to be price-competitive in the world market.

Budgeting Export Promotion

The debate on the 1985 Farm Act revealed continuing concern about the budgetary implications of federal programs designed to expand exports, concerns that have been a fundamental feature of decision-making during the past five years. A recent report, prepared for the Commission, which is attached, documents the budgetary implications of U.S. export promotion activities. As stated in the report, the long-term benefits of such programs clearly outweigh their short-term cost.

The budget issue has been a major factor in U.S. agricultural export policy since 1979. In that year, the Carter Administration successfully transferred funding of CCC export credit from the direct spending category (direct credit) to the indirect spending category (guaranteed credit) to achieve nearly $2 billion in budget savings. Concern with the transfer of authority away from direct spending was not in evidence that year: commercial export sales were booming. However, in one fell stroke, budget authority for $2 billion in direct spending on export credits was erased. The consequence of this was to make any proposals to reinstate direct credit in any amount an actual increase in federal spending, even if such proposals were for outlays far less than the $2 billion which was already contained in the budget baseline in 1978.

Budget issues were at the top of the agenda during debate on the 1981 Farm Act. Lawmakers and the Administration continued to anticipate strong commercial agricultural export sales. There was only passing interest in government-assisted export credits. The result was an export title to the bill which went little beyond strict reauthorization of P.L. 480.

Circumstances were reversed in following years. The 1982 Reconciliation Act authorized a three-year program of $175 billion to $190 billion in direct credit for use in combating unfair trade practices and for generic export promotion. Ultimately, it was this authority which was used to fund the blended credit program. With the emergence of declining U.S. agricultural sales, export promotion became a political issue. In response to serious demand declines from major U.S. customers, such as Mexico, the Administration rapidly increased off-budget allocations for guaranteed credits. A one-time payment-in-kind program was authorized for sales of wheat flour to Egypt as response to EC wheat flour export subsidies. A butter sale to New Zealand was also consummated, again for the purpose of frustrating EC export policy practices. Finally, as a prelude to action on the 1985 Farm Act, additional direct and guaranteed credit, and new expanded authority for food aid, was authorized in the 1984 Wheat Improvement Act.

By early 1985, it became clear that the continuing export problems facing U.S. agriculture needed additional remedy. However, lawmakers remained concerned about actions that they might take which would increase federal spending. **In this environment, the export payment-in-kind program was seen as an attractive alternative to traditional credits.** Since assistance could be provided to exporters using in-kind contributions of CCC stocks (which, in the current market, were unlikely to be released) and since such stocks involved government storage and maintenance costs, it could be argued that export payment-in-kind actually constituted a savings to the federal government. The Administration began by resisting pressure to implement an export payment-in-kind program, arguing that price support reductions alone could provide the means to achieve competitiveness, without further need for export enhancement. However, **in June 1985, bowing to extreme political pressure, the Administration did agree to implement a $2 billion Export Enhancement Program (BICEP, or EEP), a program later included in the 1985 Farm Act.**

While there was some progress on the export payment-in-kind front in early 1985, it was counterbalanced by the loss to the agricultural sector of the Blended Credit Program. In late February, 1985, a Federal District Court ruling was handed down that cargo preference laws were applicable to blended credit sales. Faced with the higher cost of shipping commodities, the Administration immediately suspended the program. **Attention turned to the 1985 Farm Act.**

As indicated previously, the 1985 Farm Act contained significant provisions relating to export sales and promotions. However, almost immediately, budgetary issues intervened to reduce funds available for such purposes. In early 1986, as a result of technical difficulties attending the operation of domestic price support programs, authorization for spending under the EEP program was reduced from $2 billion to $1 billion and funding of the Targeted Export Assistance Program reduced from $325 million annually to $110 million. The President's Fiscal Year 1987 budget, submitted to Congress in February 1986 called for further reductions in export credits and for substantial cuts in the budget of the FAS cooperator market development program. The passage of the Gramm-Rudman budget reduction bill placed a new and unpredictable element in the overall climate. These latter issues – and their ultimate effect on export promotion financing – await final action by Congress.

As the above commentary has indicated, the past five years have been a period of significant flux as regards funding of U.S. export promotion activities. The Commission strongly supports Congressional efforts to reduce the federal deficit. However, as reported in the attached study, export promotion programs can be a positive factor in efforts to reduce the budget. Expanded export sales under such programs can strengthen prices and lower domestic farm program costs. While credits and enhancements may involve immediate Federal outlays, such spending is compensated in fol-

lowing years through repayments and expanded sales.

In every instance alluded to above, the Commission believes that it is a mistake to let immediate budget considerations override long-term economic benefits of Congressionally-mandated export promotion and sales programs. It is also a mistake to let short-term budget considerations prevent implementation of other activities that need no Congressional mandate but would be useful in the expanding current sales, and would contribute to long-term demand for U.S. farm products.

A USDA study of Fiscal Year 1984 credit programs concluded that these programs, because of increased tax revenue savings on farm programs and the collection of credit guarantee fees, generated a return of $1.30 for each $1 in credit guarantees – guarantees that generally cost the U.S. Treasury nothing.

There have been no studies of the impact of intermediate credit, but the need for the program has been made painfully clear as country after country is forced to reduce imports because of an inability to pay for commodities on a short-term basis.

Similar concerns have been raised in regard to the maintenance of the cooperator market development program of the Foreign Agricultural Service. As previously indicated, the Administration's proposed 1987 budget for the program is reduced by 37 percent from the 1986 level.

Studies by the FAS have shown market development programs to be extremely cost-effective. A cost-benefit analysis of a major share of the activities for 1985 revealed sales expectations of around $80 for each dollar spent on market development. An outside study done for the American Soybean Association concluded that export promotion added 8 cents per bushel to every bushel of soybeans produced in the United States. U.S. Wheat Associates found that each dollar of wheat market development supported by producers returned $100 of additional income to each wheat producer, and $133 to the U.S. economy. Although no results are available on the Targeted Export Assistance program, a similar program that ran for three years promoting raisin sales in Europe produced dramatic positive results.

Taking all such considerations in mind, **the Commission has recommended that export credit and enhancement programs contained in the 1985 Farm Act be funded at levels no less than those specified in the Act. It also recommends that international programs of the Department of Agriculture, including the cooperator overseas market development program, be funded at levels to no less than those of Fiscal Year 1986, or at a level consistent with the expanded role of the USDA as elsewhere recommended in this report. The Commission concludes that funding at these levels is necessary, given the current and very serious problems facing U.S. agriculture in the markets of the world.**

Improving the Management of Export Promotion Activities

During 18 months of deliberation, the Commission has received substantial testimony critical of the management of currently authorized government export promotion activities. In general, export credit programs are criticized as being too inflexible; the Export Enhancement Program scored as being too limited; and other promotion activities faulted for not being sufficiently broad. Commentary regarding such issues, and Commission recommendations in response, are contained below.

Export Credit Programs

Exporters have generally been critical of the inflexibility of CCC export credit programs, particularly in respect to terms governing their time frame and cost to U.S. overseas customers. Regulations for such programs are drafted generically; i.e., one set of conditions is specified for all contracts, whether suitable in all instances or not. The result has been to make such programs relatively unattractive to foreign customers, whose needs may not be sufficiently served or inadequately addressed by virtue of the constraints built into regulations.

This criticism was particularly in evidence in 1985, during a period in which the value of the dollar made even government-assisted export credit sales uncompetitive with terms of similar sales offered by other

competitor nations. In that instance, it was the overwhelming consensus of the agricultural community that the terms of CCC credit packages be redrawn to ensure that they were continually competitive, regardless of the performance of the U.S. dollar. The time frame of such contracts were also criticized. Many nations, particularly debt-incumbered third world countries, it was argued, found it difficult to honor the terms of the traditional three-year credit arrangement. Expansion of the three to ten-year intermediate program contained in the 1985 Farm Act should improve our nation's ability to meet the needs of such customers. However, the President's Fiscal Year 1987 budget proposed to phase out the program after Fiscal Year 1987.

The Commission believes that greater attention must be paid to the need to maintain the flexibility of such programs.

Export credits and other enhancements should be designed with the objective of competitiveness constantly in mind. Credit policies must be flexible, and fit the needs of the importer, exporter, or commodity or product served by the program. Export credit and enhancement programs should be developed on a case-by-case basis.

Longer-term orientation should be given to export credits. Repayment terms should be flexible. Consideration should be given to partial repayment of loans in foreign currencies and incentives for early repayment, such as interest rate reductions and rebates.

In addition, the Secretary of Agriculture should be authorized to offer a program of foreign exchange risk protection to Commodity Credit Corporation export credit recipients. The proposal would require the Commodity Credit Corporation to assume all or part of the risk to CCC export credit recipient nations associated with a rise in the value of the dollar. At the time a nation is extended CCC export credits or credit guarantees, USDA would establish a maximum dollar-value repayment rate relative to some index of foreign currencies, such as the Trade Weighted Index or the World Bank's Standard Drawing Rights (SDR). If the dollar rose in value over the term of the loan or loan guarantee repayment period, the borrowing nation would only have to repay based on the dollar's value at the time the loan is extended. The Commodity Credit Corporation would assume the cost associated with the rise in the value of the dollar.

The Export Enhancement Program

Criticism has also been levelled at the management of the currently authorized Export Enhancement Program (EEP), otherwise known as the BICEP or export-PIK program. In this instance, the criticism is that regulations governing the program are too narrow to allow it to serve as an effective tool for promoting greater U.S. competitiveness throughout the world, and in reference to all commodities and products traded by the United States.

The EEP was initially mandated by Congress as a discretionary program in May of 1985. The Reagan Administration, which formally supports the concept of free trade and opposes the idea of export subsidies, claimed that EEP had been imposed upon them contrary to their wishes. However, once it was a fait accompli, the President's Economic Policy Council placed certain limitations on the program to bring it closer into conformance with the Administration's overall trade philosophy. Specifically, five conditions would be required of EEP operations:

1. They should be targeted; that is, EEP should be used to increase sales to countries where the U.S. has lost market shares to other producing countries that subsidized.
2. They should be implemented in a manner that would not cause injury to nonsubsidizing competitors.
3. The program should create "additionality"; that is, more total commodities should be exported than would be the case without the program.
4. The program should be cost-effective; EEP sales should result in a net plus for the economy.
5. The program should be budget neutral – operations should not increase federal outlays above what they would have been without the program.

The organizations which had advocated the

program from the outset were disappointed with the Executive Branch's restrictions; generally, they wanted a mandatory, across-the-board program. In addition, Congress decided that the Administration was dragging its heels. In the 1985 Farm Bill, legislators responded to the request of the farm group coalition by making EEP mandatory and authorizing it at $2 billion. The targeting aspect was maintained, however. In March 1986, Congress lowered the spending limits on EEP to $1 billion over the next three years.

The targeting requirement may make it difficult for USDA to exhaust the entire funding for the program. The increasing competitiveness of U.S. agricultural commodities – especially wheat, the chief commodity shipped under EEP – means that less will have to be spent for each bushel. For example, if in one year $300,000 is spent at a subsidy level of $15/mt for wheat, that amount would support the sales of 20 mmt. Since last year's wheat exports amounted to only 31 mmt, this mandated spending level might cause problems with the additionality requirement. The fact that only $142 million in bonus commodities (book value) have been used to date confirms this problem.

Indeed, it is impossible to determine exactly how much net exports have risen due to the Export Enhancement Program. USDA estimates that 33 percent additionality is associated with each EEP initiative; this figure, however, is not based upon measured empirical data. It is furthermore difficult to ascertain whether EEP sales always result in the establishment of permanent new markets; some buyers who receive EEP may revert to their former suppliers once the export assistance has been removed.

There is no question that the targeting requirement of EEP has caused ill feelings among traditional U.S. customers: both the Soviet Union and the People's Republic of China have objected to being excluded from the program. While the Soviet Union has recently been made eligible to purchase wheat under EEP in amounts not to exceed the unexpended balance of their four million ton commitment under the Long-Term Grain Trade Agreement, further expansion of the program continues to be frustrated by objections of the Department of State. Nigeria, another traditional U.S. wheat market, has also requested that it be made eligible for the program. The Japanese, perhaps sensing that sufficient trade tensions already exist between it and the United States, have not brought up the issue.

The ability of EEP to bring subsidizing nations to the bargaining table is very difficult to assess. However, it has led to concern among our nation's leading competitors. In the fall of 1985, the EC announced that it would be registering a complaint with the GATT over the EEP. Discussions are currently taking place prior to the actual filing of a formal complaint.

Nonsubsidizing competing exporters, principally Australia, Argentina, and Canada, are generally in sympathy with the U.S. objective of countering EC subsidy practices. However, they have raised grave objections to the program, particularly as it currently applies to sales to the Soviet Union. Here again, it would appear that the EEP program may be signalling a renewed U.S. attempt to force greater discipline over the use of unfair foreign export practices.

As stated elsewhere in this report, the Commission shares with the agricultural community strong support for the EEP and concurs in the criticism of the Administration's conduct of the program. The Commission believes that the BICEP program could have provided a useful bridge between high and low commodity prices during transition to the price support levels contained in the 1985 Farm Act. Failure to use the program as such a bridge has resulted in the postponement of purchases of U.S. commodities by customers waiting for such price declines to take place. In addition, **it is evident that the program, as currently administered, is inherently discriminatory against many traditional customers of U.S. commodities and products. Consequently, as currently managed, the program may have actually resulted in a decline in sales never intended by the Congressional authors of the program.**

Export-PIK, if used for any other purpose than for retaliation to counter unfair trade practices, should be offered across the board without prejudice to traditional customers of United States agricultural commodities and products.

The Commission commends the Administration for its limited extension of the program to include the Soviet Union but insists that a further broadening to include all countries and commodities would better serve the task of enhancing U.S. competitiveness in world markets.

Other Export Promotion Activities

Finally, the Commission believes that currently available resources could better be brought to bear toward efforts to expand market development activities overseas. In particular, it recommends:

(a) The Secretary be authorized to make available to cooperator organizations commodities owned by the Commodity Credit Corporation, which shall be used by such cooperators in demonstration projects designed to expand markets for U.S. commodities and products.

(b) The Secretary be authorized to supplement commodities provided under P.L. 480 Title I agreements with an additional amount of bonus CCC-owned commodities, not to exceed 10 percent of the volume of commodities provided under the Title I, which shall be sold for foreign currencies with proceeds used by cooperator organizations to cover local market development costs.

(c) The Secretary assign an agricultural marketing specialist or agricultural trade officer in each overseas post that offers short or long-term market potential and is not now covered by an Agricultural Trade Office, agricultural trade officer, or agricultural marketing specialist.

(d) The Secretary expand and strengthen work with state departments of agriculture to better focus on states' work with companies in support of export efforts, including the stationing of marketing specialists in states or regions as part of the normal rotation of these specialists between Washington, DC, and overseas locations.

(e) The Secretary be authorized to expand the number of agricultural counselors, attaches, assistant attaches, and other diplomatic representatives of USDA posted overseas, to provide enhanced trade policy and international economic information consistent with USDA's expanded trade role as recommended in this report.

(f) The Secretary be authorized to contract with individuals for personal services abroad without regard to any provision of law regulating the making, performance, amendment, or modification of contracts. Such individuals should not be regarded as employees of the United States government under any law including but not limited to the laws administered by the Office of Personnel Management.

Management improvements of this kind could be undertaken with minimal additional cost to the federal government, while the benefits to U.S. agriculture could be substantial.

REFERENCES

1. "Agricultural Export Programs and U.S. Agricultural Policy," S. Elaine Grigsby and Cathy L. Jabra, ERS/USDA, 1985.
2. Exports under AID programs, not included in Table 1, comprise agricultural exports under foreign assistance or mutual security programs administered by the U.S. Agency for International Development.
3. Exports under P.L. 480 and AID programs were also eligible for export payments.
4. CCC sales at reduced prices. Export payments under CCC and Section 32 programs.
5. The IWA, a multilateral commodity agreement in effect from 1950 to 1967, set a fixed trade price for hard red spring wheat, with adjustments for quality and grade. Exporters selling wheat under this agreement paid a tax or received a subsidy on export sales depending on whether market prices were above or below the fixed trade price. Wheat was sold to importing countries under the agreement of the basis of negotiated quotas.
6. Authority for foreign donations under Section 416, which was used before 1966, was subsumed under P.L. 480, Title II, in that year. It was reactivated in 1982 for dairy products under the Omnibus Budget Reconciliation Act of 1982.
7. It should be noted that export credit subsidies are often used by high-cost exporters.
8. The social costs of official export credit programs differ from the actual outlays incurred by government. For instance, through official credit programs, the government is channeling funds into specific uses, and thus the social cost of these funds is their opportunity cost to other sectors of the economy. To the extent they increase the government's overall liabilities, government guarantees may raise the cost of government borrowing over the longer term.
9. For a summary of studies which have examined the impacts of market development activities. Most of these studies have shown the returns to market development activities for commodities such as eggs, milk, orange juice, soybeans, and feed grains to be relatively high.
10. Sales could be made form private stocks if it were determined that CCC inventories were insufficient to meet U.S. obligations under this law.
11. Dollar credit sales were made through Title IV initially but later were moved to Title I.
12. To the extent that commitments under bilateral agreements are fulfilled regardless of the world market situation, bilateral agreements increase instability in that part of the market not covered by such agreements.

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Use Of All Existing Tools
To Expand Markets For
U.S. Agricultural Commodities
And Products

Accompanying Information On
Current Programming Of
Export Promotion Activities

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PUBLIC LAW 480 TITLE I(III)

The status of USDA's Food for Peace Program as of June 18, 1986, was as follows, with volume in metric tons:

DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
June 6, 1986	Wheat	93,000	Jamaica
	Feed Grains	73,000	
	Rice	28,000	
June 5, 1986	Wheat	78,000	Haiti
	Oil	12,000	
June 2, 1986	Wheat	250,000	Indonesia
May 27, 1986	Wheat	178,000	Morocco
May 23, 1986	Wheat	37,000	Zambia
	Oil	7,000	
May 19, 1986	Oil	120,000	Pakistan
May 5, 1986	Wheat	18,000	Sierra Leone
	Rice	9,000	
April 28, 1986	Rice	48,000	Liberia
April 14, 1986	Wheat	20,000	Mozambique
	Feed Grains	20,000	
	Rice	10,000	
April 9, 1986	Wheat	180,000	Bolivia
March 15, 1986	Wheat	86,000	Honduras
	Tallow	5,000	
Feb. 27, 1986	Wheat Flour	20,000	Somalia
	Rice	20,000	
	Oil	15,000	
	Wheat	9,000	
Feb. 18, 1986	Rice	13,000	Yemen
Jan. 26, 1986	Wheat	121,000	Sudan
	Wheat Flour	46,000	
Jan. 3, 1986	Rice	20,000	Guinea
Dec. 20, 1985	Wheat	148,000	El Salvador
	Tallow	16,000	
	Oil	13,000	
Dec. 17, 1985	Rice	22,000	Senegal
Dec. 10, 1985	Wheat	308,000	Bangladesh
	Rice	35,000	
	Cotton	33,000	
	Oil	16,000	

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DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
Nov. 29, 1985	Wheat	120,000	Costa Rica
	Feed Grains	10,000	
Nov. 27, 1985	Wheat	100,000	Zaire
	Cotton	22,000	
Nov. 12, 1985	Wheat	1,038,000	Egypt
	Wheat Flour	519,000	
Oct. 23, 1985	Wheat	193,000	Sri Lanka
Sept. 27, 1985	Rice	14,000	Madagascar
	Oil	6,000	
	Total:	4,149,000	

SECTION 416 TRANSACTIONS

Transactions under Section 416 during the period of December 23, 1985, and June 30, 1986, were as follows in metric tons:

Regular Section 416 Program

Country and/or Organization	
Mexico	46,167
Ethiopia	21,113
Tunisia	8,843
Chile	6,806
Mauritania	5,000
Dominican Republic	3,867
Poland	2,543
Costa Rica	1,600
Haiti	425
Subtotal	96,304

World Food Program	
Pakistan	3,634
Nepal	1,800
Guatemala	1,000
Mali	453
Cape Verde	360
El Salvador	255
Honduras	145
Mauritania	80
Benin	55
Saotome	30
Dominican Republic	28
Bhutan	25
Senegal	20
Subtotal	7,885
Total	104,249

EXPORT CREDIT GUARANTEE PROGRAM (GSM-102)

Export credit guarantees authorized for fiscal 1986 as of May 30, 1986, were as follows in million dollars:

DATE ANNOUNCED	COMMODITY	COMMITMENTS	COUNTRY
May 14, 1986	Feed grains	26.90	Algeria
	Wheat	70.10	Algeria
May 13, 1986	Wheat	7.00	Tunisia
March 21, 1986	Feed grains	17.70	Jordan
	Rice	12.00	Jordan
	Wheat	54.00	Jordan
	Undesignated	6.30	Jordan
March 7, 1986	Beans, dry edible	1.40	El Salvador
	Oilseeds	0.60	El Salvador
	Poultry breeder stock	1.20	El Salvador
	Protein meals	5.00	El Salvador
March 7, 1986	Livestock, beef and dairy	3.00	Taiwan
March 3, 1986	Feed grains	2.00	Turkey
Feb. 19, 1986	Breeder horses	0.80	Argentina
Jan. 23, 1986	Dry peas	2.00	Pakistan
Dec. 31, 1985	Feed grains	2.50	Guatemala
	Planting seeds	0.30	Guatemala
	Poultry breeding stock	0.70	Guatemala
	Protein meals	0.50	Guatemala
	Rice	2.00	Guatemala
	Tallow	9.00	Guatemala
	Vegetable oils	10.00	Guatemala
Dec. 26, 1985	Tallow and greases	1.50	Haiti
Dec. 19, 1985	Wheat	45.00	Pakistan
Dec. 9, 1985	Beef liver	4.00	Egypt
	Cotton	65.00	Egypt
	Feed grains	27.50	Egypt
	Lumber	2.50	Egypt
	Mullet	2.00	Egypt
	Oilseeds	45.00	Egypt
	Tobacco	75.00	Egypt
	Vegetable oils and veg. oil shortenings	25.50	Egypt

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DATE ANNOUNCED	COMMODITY	COMMITMENTS	COUNTRY
Dec. 9, 1985	Vegetable protein concentrates	1.00	Egypt
	Wheat	50.00	Egypt
	Wheat flour	70.00	Egypt
Dec. 6, 1985	Beans, peas and lentils	15.00	Iraq
	Canned meat and/or vegetables	3.00	Iraq
	Corn	45.00	Iraq
	Cotton	8.00	Iraq
	Lumber	16.00	Iraq
	Hides and/or skins	4.00	Iraq
	Oilseeds, protein meals and protein concentrates	45.00	Iraq
	Planting seeds	12.00	Iraq
	Frozen poultry meat	3.00	Iraq
	Rice	165.00	Iraq
	Soft drink concentrate	6.00	Iraq
	Sugar	20.00	Iraq
	Tobacco	3.00	Iraq
	Vegetable oils and tallow	25.00	Iraq
	Wheat	110.00	Iraq
	Wheat flour	20.00	Iraq
Nov. 22, 1985	Lumber	1.30	Haiti
	Planting seeds	0.20	Haiti
	Wheat	7.50	Haiti
Nov. 22, 1985	Protein meals	10.00	Yugoslavia
Nov. 18, 1985	Protein meals	8.00	Pakistan
Nov. 6, 1985	Vegetable oils	60.00	Pakistan
Nov. 6, 1985	Wheat	150.00	Morocco
Oct. 17, 1985	Wheat	50.00	Turkey
Oct. 10, 1985	Cotton	270.00	Korea
	Feed grains	40.00	Korea
	Soybeans	50.00	Korea
	Tallow	20.00	Korea
	Wheat	155.00	Korea
Oct. 1, 1985	Beans, dry edible	1.00	Honduras
	Breeder livestock and materials	1.80	Honduras
	Corn, white	1.50	Honduras
	Oilseeds	1.50	Honduras
	Planting seeds	2.00	Honduras
	Poultry breeder stock	0.20	Honduras
	Protein meals	3.00	Honduras

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DATE ANNOUNCED	COMMODITY	COMMITMENTS	COUNTRY
Oct. 1, 1985	Beans, dry edible	30.00	Brazil
	Feed grains	120.00	Brazil
	Potatoes, fresh	15.00	Brazil
	Rice	50.00	Brazil
	Wheat	150.00	Brazil
Oct. 1, 1985	Cotton	2.00	Jamaica
	Feed grains	9.00	Jamaica
	Grape concentrate	0.20	Jamaica
	Hops	0.40	Jamaica
	Lumber	8.50	Jamaica
	Malt	1.40	Jamaica
	Oilseeds	11.00	Jamaica
	Planting seed	0.50	Jamaica
	Protein meals	2.00	Jamaica
	Rice	10.00	Jamaica
	Tallow	3.00	Jamaica
	Tobacco	0.50	Jamaica
	Vegetable oils	4.00	Jamaica
	Wheat/wheat flour	7.50	Jamaica
Oct. 1, 1985	Beans, dry edible	16.00	Mexico
	Breeder livestock	5.00	Mexico
	Livestock, breeder and nonbreeder	50.00	Mexico
	Feed grains	188.00	Mexico
	Oilseeds	218.00	Mexico
	Protein meals	7.00	Mexico
	Tallow	67.00	Mexico
	Vegetable oils	99.00	Mexico
Sept. 30, 1985	Feed grains	5.00	Yemen Arab Rep.
	Sugar	5.00	Yemen Arab Rep.
	Wheat	30.00	Yemen Arab Rep.
	Wheat flour	10.00	Yemen Arab Rep.
Sept. 27, 1985	Feed grains	218.00	Portugal
	Rice	19.00	Portugal
	Wheat	73.00	Portugal
Sept. 26, 1985	Feed grains	8.00	Chile
	Wheat and/or wheat flour	42.00	Chile
Sept. 19, 1985	Wheat	100.00	Colombia
Sept. 13, 1985	Cotton	60.00	Yugoslavia
	Hides and skins	40.00	Yugoslavia

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DATE ANNOUNCED	COMMODITY	COMMITMENTS	COUNTRY
Sept. 3, 1985	Almonds, shelled	0.50	Hungary
	Breeding materials	1.00	Hungary
	Cotton	5.00	Hungary
	Protein meals	28.50	Hungary
	Soy protein products	2.00	Hungary
Aug. 29, 1985	Animal milk replacer	0.50	Ecuador
	Breeder stock	2.00	Ecuador
	Cotton	9.50	Ecuador
	Feed grains	4.00	Ecuador
	Planting seeds and/or nursery stock	1.00	Ecuador
	Tallow/greases	3.00	Ecuador
	Vegetable oils	30.00	Ecuador
	Wheat	55.00	Ecuador
	Total Value	$3,889.00	
	Allocated to date	$1,470.77	

EXPORT ENHANCEMENT INITIATIVES

The status of USDA's Export Enhancement Program as of July 8, 1986, was as follows in metric tons:

DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
July 8, 1986	Poultry	15,000	Egypt
July 8, 1986	Vegetable Oil	25,000	India
June 24, 1986	Wheat	75,000	Jordan
June 24, 1986	Wheat	200,000	Yugoslavia
June 24, 1986	Wheat	500,000	Egypt
June 18, 1986	Poultry	5,000	Egypt
June 17, 1986	Barley	60,000	Jordan
June 17, 1986	Barley	200,000	Israel
May 29, 1986	Dairy Cattle	4,000 head	Tunisia
May 29, 1986	Dairy Cattle	5,000 head	Algeria
May 16, 1986	Wheat	125,000	Sri Lanka
May 15, 1986	Wheat	40,000	Zaire
May 15, 1986	Wheat Flour	30,000	Zaire
May 8, 1986	Wheat	500,000	Turkey
May 7, 1986	Barley	500,000	Saudi Arabia
April 17, 1986	Barley	500,000	Algeria
April 16, 1986	Dairy Cattle	4,000 head	Morocco
April 16, 1986	Dairy Cattle	5,000 head	Turkey
April 16, 1986	Dairy Cattle	6,000 head	Egypt
April 14, 1986	Poultry Feed	150,000	Yemen
April 14, 1986	Wheat Flour	100,000	Yemen
April 10, 1986	Wheat	1,000,000	Algeria
April 10, 1986	Wheat	200,000	Yugoslavia
April 9, 1986	Dairy Cattle	7,500 head	Indonesia
April 8, 1986	Wheat	700,000	Syria
April 7, 1986	Wheat	45,000	Benin
April 4, 1986	Table Eggs	500 million	Algeria
April 4, 1986	Dairy Cattle	6,500 head	Iraq
March 21, 1986	Poultry	15,000	Egypt
March 19, 1986	Wheat	75,000	Jordan
March 18, 1986	Wheat	300,000	Tunisia
Feb. 25, 1986	Wheat Flour	100,000	Algeria
Feb. 11, 1986	Semolina	250,000	Algeria
Jan. 7, 1986	Wheat	150,000	Philippines

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DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
Dec. 27, 1985	Wheat	40,000	Zaire
Dec. 10, 1985	Barley Malt	100,000	Nigeria
Dec. 9, 1985	Wheat Flour	150,000	Iraq
Nov. 26, 1985	Poultry	8,000	Egypt
Nov. 18, 1985	Wheat Flour	64,000	Zaire
Nov. 15, 1985	Wheat Flour	100,000	Philippines
Nov. 8, 1985	Rice	40,000	Jordan
Oct. 30, 1985	Wheat	500,000	Egypt
Oct. 16, 1985	Wheat	500,000	Turkey
Sept. 30, 1985	Wheat	1.5 million	Morocco
Sept. 6, 1985	Wheat	100,000	Yemen
Aug. 20, 1985	Wheat Flour	50,000	Yemen
July 26, 1985	Wheat	500,000	Egypt
July 2, 1985	Wheat Flour	600,000	Egypt
June 20, 1985	Wheat	500,000	Egypt
June 4, 1985	Wheat	1 million	Algeria

SUMMARY

Total Grain Equivalent	11,611,780 tons
Eggs	500,000 eggs
Frozen Poultry	28,000 tons
Dairy Cattle	38,000 head
Total Bonus Value to Date	$264.3 million

Estimated Bonus Quantity

Wheat and flour	1,560.0
Barley	106.8
Corn	105.9
Soybeans	49.8
Rice	19.6
Total	1,842.1

TARGETED EXPORT PROMOTION PROGRAM

The status of USDA's Targeted Export Promotion Program as of July 8, 1986, was as follows with value in dollars:

DATE ANNOUNCED	COMMODITY	VALUE	COUNTRY
June 24, 1986	Feed Grains, Soybean Meal & Dairy Cattle	$3 million	Algeria
June 23, 1986	Fresh & Processed Citrus produced in Florida	$4.6 million	Western Europe & Pacific Rim
May 20, 1986	Dried Prunes	$4 million	Western Europe
April 30, 1986	Wood	$1.95 million	Japan
April 28, 1986	Wine	$2.3 million	Japan, United Kingdom, Hong Kong, Singapore
April 25, 1986	Almonds		Western Europe, Japan, Korea
April 17, 1986	Canned Peaches, Fruit Cocktail	$2.5 million	Japan, Taiwan
April 16, 1986	Walnuts	$7 million	Western Europe, Japan
April 16, 1986	Raisins	$6.3 million	Western Europe, Pacific Rim
April 14, 1986	Fresh and Processed Citrus produced in Arizona and California		Japan, Hong Kong, Singapore, Malaysia
March 27, 1986	Frozen Potatoes	$2 million	Japan, Hong Kong Taiwan, Malaysia Singapore
	Total:	$43.05 million	

EXPORT CREDIT PROGRAMS, BY COUNTRY, FISCAL YEAR 1986 ($MILLION) 1/

Country	GSM-102 Guarantee Program 2/ Announcements	Title I/III Allocations 3/	Title II 4/ Allocations	Section 416 5/	CCC Direct Sales	Export 6/ Enhancement Program (Announced)	Total
Algeria	97.0					350.6	447.6
Angola			2.7				2.7
Argentina	.8						.8
Austria					11.6		11.6
Bangladesh		70.0	36.1				106.1
Benin			1.3	.1		4.5	5.9
Bhutan			.3	.1			.4
Bolivia		20.0	10.2				30.2
Botswana			4.4				4.4
Brazil	365.0		.2	12.9	25.3		403.4
Burkina Faso			7.4				7.4
Burundi			1.8				1.8
Cameroon			.8	.2			1.0
Cape Verde			3.1				3.1
C.A.R.			.5				.5
Chad			3.8				3.8
Chile	50.0			1.2			51.2
Columbia	100.0						100.0
Comoro Isl.			.5				.5
Congo			.4				.4
Costa Rica		23.0					23.0
Dominican Rep.		30.0	1.7	3.3			35.0
Ecuador	105.0	5.0	1.6				111.6
Egypt	367.5	213.0	5.1			218.1	803.7
Egypt/Sinai			1.8				1.8
El Salvador	8.2	46.0	9.9	1.1			65.2
Eq. Guinea			.5				.5
Ethiopia			67.0	11.2			78.2
Ethiopia Ref.			5.0				5.0
Gambia			1.1				1.1
Gaza			.6				.6
Ghana		8.0	11.8	.7			20.5
Guatemala	25.0	14.0	4.9				43.9
Guinea		6.0					6.0
Guinea Bissau			.4				.4
Guyana			.3				.3
Haiti	10.5	18.0	15.8	.3			44.6
Honduras	11.0	15.0	4.3				30.3

EXPORT CREDIT PROGRAMS, BY COUNTRY, FISCAL YEAR 1986
($MILLION) 1/

Country	GSM-102 Guarantee Program 2/ Announcements	Title I/III Allocations 3/	Title II 4/ Allocations	Section 416 5/	CCC Direct Sales	Export 6/ Enhancement Program (Announced)	Total
Hungary	37.0						37.0
India			91.1				91.1
Indonesia		30.0	4.3			7.5	41.8
Iraq	500.0					21.5	521.5
Israel					.3		.3
Ivory Coast			.1				.1
Jamaica	60.0	30.0	1.8				91.8
Jordan	90.0					15.9	105.9
Kampuchea			1.3				1.3
Kenya		10.0	2.7				12.7
Korea	535.0						535.0
Lebanon			1.4				1.4
Lesotho			8.0				8.0
Liberia		11.0					11.0
Madagascar		8.0	1.8				9.8
Malawi			.3				.3
Mali			10.0				10.0
Mauritania			2.7				2.7
Mauritius			.1				.1
Mexico	650.0				32.2		682.2
Morocco	150.0	40.0	5.9			154.0	349.9
Mozambique		7.9	9.0				16.9
Nepal			1.2	.8			2.0
Nigeria						23.5	23.5
Niger			6.6	.5			7.1
Panama			.1				.1
Paraguay			.3				.3
Pakistan	115.0	50.0	29.0	8.2			202.2
Peru		20.0	8.3				28.3
Philippines		35.0	7.8	.8		30.0	73.6
Poland			2.9	4.5			7.4
Portugal	310.0			1.8			311.8
Rwanda			4.7				4.7
Saudia Arabia						40.0	40.0
Sao Tome			.6	.1			.7
Senegal		5.5	4.2				9.7
Seychelles			.2				.2
Sierre Leone		4.0	1.1				5.1
Somalia		16.5	8.6				25.1

EXPORT CREDIT PROGRAMS, BY COUNTRY, FISCAL YEAR 1986
($MILLION) 1/

Country	GSM-102 Guarantee Program 2/ Announcements	Title I/III Allocations 3/	Title II 4/ Allocations	Section 416 5/	CCC Direct Sales	Export 6/ Enhancement Program (Announced)	Total
Sri Lanka		26.0	4.3			12.5	42.8
St. Kitts							
St. Lucia							
Sudan		45.0	6.1	2.7			53.8
Swaziland			.3				.3
Syria						70.0	70.0
Taiwan	3.0						3.0
Tanzania			1.5	1.7			3.2
Togo			2.2				2.2
Tunisia	7.0	2.5				30.0	39.5
Turkey	132.0					105.0	237.0
Uganda			.6	.7			1.3
West Bank			1.2				1.2
Yemen	50.0	5.0				51.6	106.6
Yugoslavia	110.0					20.0	130.0
Zaire		20.0	.1			22.1	42.2
Zambia		10.0	.1				10.1
TOTAL:	3889.0	844.4	437.8	52.9	69.4	1176.8	6470.3

1/ All numbers rounded to one decimal place.
2/ Fiscal year data through May 16, 1986.
3/ Fiscal year data through May 31, 1986.
4/ Fiscal year data through April 11, 1986.
5/ Section 416 values are CCC commodity acquisition costs. Fiscal year data through March 31, 1986.
6/ Export Enhancement Program values are f.o.b prices (excluding the bonus value) multiplied by the quantity annnounced. Fiscal year data through May 28, 1986.

CCC EXPORT CREDIT: PROGRAM ACTIVITIES
(Dollars in Millions)

Fiscal Year	GSM-5 a/	GSM-201 b/ & GSM-301 c/	GSM-101 d/	GSM-102 e/	GSM-103 f/	Total
1956 Actual	1					1
1957 Actual	5					5
1958 Actual	12					12
1959 Actual	39					39
1960 Actual	1					1
1961 Actual	18					18
1962 Actual	33					33
1963 Actual	77					77
1964 Actual	118					118
1965 Actual	95					95
1966 Actual	210					210
1967 Actual	339					339
1968 Actual	141					141
1969 Actual	116					116
1970 Actual	211					211
1971 Actual	391					391
1972 Actual	372					372
1973 Actual	1,029					1,029
1974 Actual	298					298
1975 Actual	249					249
1976 Actual	621					621
19TQ Actual	336					336
1977 Actual	755					755
1978 Actual	1,583					1,583
1979 Actual	1,527		63			1,590
1980 Actual	718	1	698	671		2,088
1981 Actual	11	11	119	1,514		1,655
1982 Actual	46	7		1,624		1,677
1983 Actual	217			4,800		5,017
1984 Actual	164			4,237		4,401
1985 Actual				4,481		4,481
1986 Estimate				4,785 g/	479 g/	5,264
1987 Estimate				5,000 h/	500 h/	5,500
TOTAL	9,733	19	880	27,612	978	39,222

a/ SHORT-TERM EXPORT CREDIT SALES (GSM-5). Provides 6 month to 36 month financing at commerical interest rates for market development.

b/ INTERMEDIATE CREDIT PROGRAM FOR BREEDING ANIMALS (GSM-201). Provides 3 to 10 year financing at commerical interest rates to establish herds of breeding animals.

c/ INTERMEDIATE CREDIT PROGRAMS FOR MARKET FACILITIES (GSM-301). Provides 3 to 10 year financing at commercial interest rates to establish facilities in importing countries, thus improving their capabilities to import U.S. agricultural commodities.

d/ NON-COMMERICAL RISK ASSURANCE PROGRAM (GSM-101). Provides credit guarantees to U.S. exporters and banks for non-commercial risks defaults on privately financed export credit sales of U.S. commodities.

e/ EXPORT CREDIT GUARANTEE PROGRAM (GSM-102). Provides comprehensive (all-risk) guarantee for U.S. banks from default on payments due from foreign banks for privately financed export credit sales for 3 years or less. It complements the GSM-101 program and is interchangeable with the GSM-5 program.

f/ INTERMEDIATE EXPORT CREDIT GUARANTEE PROGRAM (GSM-103). Provides 3 to 10 year financing at commercial rates to promote the export of U.S. agricultural commodities.

g/ Food Security Act of 1985 (PL 99-198), including adjustments required under the Balanced Budget and Emergency Deficit Control Act of 1985 (PL 99-177).

h/ Food Security Act of 1985 (PL 99-198), without any adjustments for the Balanced Budget and Emergency Deficit Control Act of 1985 (PL 99-177) provisions.

Use Of All Existing Tools To Expand Markets For U.S. Agricultural Commodities And Products

Accompanying Information On Agricultural Export Programs And The Federal Budget

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AGRICULTURAL EXPORT PROGRAMS AND THE FEDERAL BUDGET

PREPARED FOR THE
NATIONAL COMMISSION ON
AGRICULTURAL TRADE AND EXPORT POLICY
14TH AND INDEPENDENCE
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AGRICULTURAL EXPORT PROGRAMS AND THE FEDERAL BUDGET

CONTENTS

AGRICULTURAL EXPORT PROGRAMS AND THE FEDERAL BUDGET

SUMMARY

Global recession and weak economies, growing third world debt, the strong U.S. dollar, and keen and unfair trade competition have reduced U.S. export demand in the 1980s. The huge annual federal deficit indirectly creates a strong dollar which restricts U.S. exports. Increases in the federal deficit exert upward pressure on the interest rate. As the Federal government borrows more money, there is a tendency for the Federal government to crowd the private sector out of the debt market with increased competition for the available private, state and local net savings. The higher the real U.S. interest rate is in relation to other countries' real interest rates, then the more likely the value of the U.S. dollar will strengthen in relation to other currencies. A strong dollar makes U.S. exports more expensive to foreign customers in terms of their currency.

Efforts are presently under way that should increase agricultural exports which have fallen from $44 billion in fiscal year 1981 to an estimated $29 billion in fiscal year 1986. Reductions in the budget deficit under the auspices of the Balanced Budget and Emergency Deficit Control Act of 1985 (also known as Gramm-Rudman-Hollings) should allow interest rates to decline and the value of the dollar to weaken in relation to other currencies. A weaker dollar should result

in increased agricultural exports. This chain of events can take several years to occur.

The Secretary of Agriculture (under the authority granted by the Food Security Act of 1985) has reduced commodity price supports sharply for the 1986 crops. This should allow U.S. exports to be more competitive with foreign competitors. This will be true only if the competitors do not continue to undercut U.S. prices through the use of unfair trading practices such as export subsidies. Export enhancement programs such as bicep (export PIK) can be used to combat these unfair trading practices.

The huge federal budget deficit has not only restricted agricultural exports through its direct and indirect effect on interest rates, value of the dollar and trade flows, but it has resulted in restricting the implementation of any export enhancement program that is not revenue-neutral each year of operation. Some programs such as direct export credit stand little chance of being implemented. They may have a net outlay in the first year of operation, but actually decrease the federal deficit during the life of the program.

The enactment or implementation of agricultural programs has traditionally been the domain of the Congress and the Executive Branch (principally the Secretary of Agriculture). Concern with the mounting budget deficit is shifting this authority to other segments of government, i.e. OMB, CBO, and GAO. The enactment of the Balanced Budget and Emergency Deficit Control Act of 1985 provides authority to OMB, CBO,

and GAO to make across the board program budget cuts, such as deficiency payments and price supports, should the President and Congress fail to agree on sufficient budget reduction measures to reach the budget deficit targets. Thus, future agricultural policy is likely to be made with the principal objective of reducing the budget deficit and a lesser objective of establishing agricultural programs to help the farm sector.

Budget Deficit and Trade

The financial well-being of the agricultural sector, like other sectors of the U.S. economy, is strongly influenced by interest rates and the value of the dollar. High interest rates create extremely adverse conditions for farmers at this time of burgeoning debt and tight cash flow. Agriculture, which is heavily dependent on exports for revenue is very sensitive to changes in the value of the dollar.

Global recession and weak economies, growing third world debt, the strong U.S. dollar, and keen and unfair trade competition have reduced U.S. export demand in the 1980s. The huge annual federal deficit indirectly creates a strong dollar which restricts U.S. exports. A strong dollar makes U.S. exports more expensive to foreign customers in terms of their currency.

Increases in the federal deficit exert upward pressure on the interest rate. As the Federal government borrows more money, competition is increased for the limited private, state and local savings which exerts upward pressure on interest rates. The higher real interest rates (net of inflation) climb, the more domestic growth is restricted. Further, as the U.S. real interest rates climb higher in relation to foreign countries' real interest rates, there is a tendency for foreign capital to move into the U.S. debt markets. Although this influx of capital will hold down U.S. interest rates, it tends to increase the value of the dollar relative to other currencies. A one percent increase in the value of

the dollar tends to result in a $2 to $3 billion increase in the U.S. trade balance deficit. A strong dollar restricts U.S. exports and encourages foreign imports by making U.S. exports more expensive to foreign buyers while at the same time increasing the revenue countries receive for their goods exported to the U.S.

A strong dollar is particularly harmful for farm exports. Between the first quarter of 1980 to the first quarter of 1985, the value of the dollar increased 79 percent (according to the Federal Reserve trade weighted exchange rate index.) In 1980/81, 64 percent of U.S. wheat production was exported, 35 percent of corn, and 40 percent of soybeans. The 1984/85 exports fell to only 55 percent of production for wheat, 24 percent for corn, and 32 percent for soybeans. Although the dollar fell 20 percent from early 1985 to the end of 1985, it can take as much as 2 years for a change in the exchange rate to affect the trade flow. Agricultural exports were valued at $44 billion in fiscal year 1981, but are expected to be only $29 billion in fiscal year 1986.

This negative trade imbalance restricts domestic economic growth. Restricted economic growth increases the budget deficit by reducing federal revenue due to decreased earnings and through increased spending on domestic programs such as unemployment benefits, domestic food and farm programs.

Impact of Agricultural Exports on the Budget

Increased agricultural exports would reduce the balance of trade deficit and thus indirectly reduce the budget deficit through increased economic growth. The economic growth would be most significant in the farm sector. Not only would farmers benefit, but farm input suppliers such as the farm machinery sector, fertilizer, chemical and seed suppliers, and the transportation sector such as the railroads and merchant fleet would also benefit. These sectors have all been severely depressed in recent years.

Increased agricultural exports also have a direct positive impact on the federal deficit. Generally as agricultural exports are increased, domestic commodity prices are increased. When the market price is below the target price and above the loan rate, increased market prices reduce deficiency payments and reduce the amount of commodities under loan. Reduced loans result in a lower credit budget for the Federal government and lower outlays for grain storage payments and interest payments. Also as market prices increase, farmers' credit demands decrease. Farmers will sell more of their crops rather than putting them under federal loan. They will also borrow less money for operating loans since they will have a higher revenue from increased commodity prices on all crops sold and from increased commodities sold. The lower farmer credit demand would take some pressure off of the overall credit demand and thus, exert a tendency toward lower interest rates.

Export Enhancement Programs

There are several types of export enhancement programs that could be used to spur exports. These programs include food aid, such as Public Law 480; credit, including direct and guaranteed loans to foreign countries for the purchase of U.S. commodities; and other enhancement programs, such as bicep (also known as export PIK (payment-in-kind)). The export enhancement programs have been used for humanitarian reasons or to increase additional sales over the amount that would have been exported commerically.

Food Aid

P.L. 480 has two major funding sections, Title II and Titles I and III. Title II provides donations of commodities to countries in need of food assistance. A minimum of 1.9 million tons of food and a program funding level of $762 million have been established for fiscal year 1986. Titles I and III provide 4 million tons of commodities ($986 million in fiscal year 1986) for long term concessional loans (dollar repayment over 15-40 years) in return for specific commitments related to economic development. Some of these loans may be forgiven under Title III if detailed economic and social development commitments are satisfied. The program's multiple objectives are humanitarian, market development, economic development and foreign policy.

Although there are other commodities other than wheat and wheat flour provided as food aid under P.L. 480, such as dairy products and rice, wheat and wheat products make up a large

portion of the food aid products. Each 100 million bushels reduction in carryover wheat stocks increases the market price by 10 to 15 cents per bushel under current supply and demand conditions.

Credit

There have been a series of credit programs authorized under the auspices of the CCC (Commodity Credit Corporation) over the past 35 years including direct loans, loan guarantees and a blend of these two programs. Direct loans have been made to foreign entities for up to three years at rates slightly above the cost of Government borrowing (GSM-5). Guarantees of bank loans for up to three years for 98 percent of the principal and 8 percent of the interest (GSM-102) have also been utilized. A blend of these two programs was used in fiscal years 1983, 1984 and early 1985. This blended credit program usually included a blend of 80 percent guaranteed loans and 20 percent direct credit. The interest on direct credit was set at zero, which reduced the cost of borrowing by 20 percent.

The commodities exported under this program were allowed to be exported on cheaper non-U.S. commercial vessels. This program was suspended; however, when a court ruled that cargo preference laws were applicable to the program on grounds the zero interest on the direct credit constituted a subsidy. The 20 percent interest saving was more than offset by the increased cost of shipping 50 percent of the commodities on U.S. bottoms. Efforts were made in the Food Security Act of

1985 to combat the negative effects of the strong dollar on U.S. agricultural exports and from unfair competition from foreign competitors. The Act provides $5 billion annually in guaranteed loans.

Other Export Enhancement Programs

Another export enhancement program known as bicep or export PIK is currently being operated. The purpose of bicep has been to combat the unfair subsidized trading practices of foreign competitors, notably the European Community. Each initiative must meet four criteria: additionality, targeting, cost effectiveness and budget neutrality. Additionality means each sale must increase exports (net of the CCC stocks utilized) above what would have occurred in the absence of a program. Sales are targeted only to those markets where competitors are subsidizing their sales. Sales also must result in a net plus to the overall economy and must not increase budget outlays above what would have occurred in the absence of the sale.

A drawback of targeting is that traditional customers of the U.S. such as the U.S.S.R. may feel slighted by not being allowed to participate in the bicep program. In retaliation, the U.S.S.R. may switch as much of its business as possible to other exporting countries. This can significantly reduce the additionality of bicep.

Bicep can be implemented in three ways. One method is to provide a domestic producer of a commodity, e.g. poultry, which an importer wants with enough CCC surplus grain to allow

the domestic producer to lower the price of the poultry to the importer and still be able to cover his costs and make a reasonable profit.

A second method is to provide an importer of two or more commodities, e.g. wheat and beef, with enough surplus CCC wheat to effectively lower the overall cost of the total purchase sufficiently to make the sale. The third method is to blend sufficient CCC surplus stock with commercial supplies of the same commodity, e.g. wheat, to effectively lower the overall price of the commodity to the importer.

The Food Security Act of 1985 increased the scope of bicep to allow the inclusion of countries that would not meet the financial qualifications of the CCC credit programs. Also, all traditional customers are to be considered for this program if they have maintained their import levels (at or above some historical level) from the U.S. Two billion dollars of surplus CCC commodities over three years, fiscal years 1986 through 1988, are to be blended with commercial exports to provide an effective lower price to foreign customers.

Price Support Reduction

Price supports are being sharply dropped to encourage exports through the use of more competitive prices. Price support increases and the strengthening dollar have created an adverse effect on agricultural exports over the past six years. Domestic prices are presently being maintained above world prices by the 1985 crop price support levels, e.g. corn

price support presently is $2.55 per bushel and wheat is $3.30 per bushel. The Secretary of Agriculture has announced the 1986 crop price supports to be lowered to $1.92 per bushel for corn and $2.40 per bushel for wheat. The effective price supports are likely to be lowered another 4.3 percent due to the Administration's efforts to comply with fiscal year 1986 deficit reductions as stipulated by the Balanced Budget and Emergency Deficit Control Act of 1985 (also known as Gramm-Rudman-Hollings). Corn could be effectively reduced to $1.84 per bushel and $2.30 per bushel for wheat.

This solution to the strong dollar problem is likely to result in success in alleviating the large grain surplus within the next several years. The short run is likely to see increased adverse financial pressure on farmers as a result of sharply reduced commodity prices. Importers are unlikely to be willing to import more than is absolutely necessary in the next several months while the prospects of significantly lower prices are possible with the harvest of the 1986 crops. Sizeable farmer participation in the 1986 crop reduction program and/or adverse weather conditions could change this scenario.

The sharply decreased price supports will greatly increase the federal budget exposure since maximum deficiency payments are made on the basis of the difference between the target price, which is held stable by law for the 1986 and 1987 crops, and the market price or loan rate, whichever is the smaller difference.

Thus, the use of sharply reduced price supports to combat the adverse impact of a strong dollar is likely to increase the cost of the agriculture programs in the next year, while further depressing farm income.

Impact of Budget Restrictions on Agricultural Export Enhancement Programs

Changing Economic Picture

Except for the early 1970s, the decade was characterized by rising agricultural exports and a declining dollar. Agricultural price supports were increased as commodity prices rose. There was some effort made to insure the continuation of the rise in exports. The Agricultural Trade Act of 1978 provided for the opening of agricultural trade offices, the designation of agricultural counselors in several countries, and an intermediate-term credit program.

In the 1970s, agricultural programs were designed to try to stabilize farm commodity prices and farmer income at a reasonable level. (Commodity prices are subject to wide fluctuations due to the vagary of weather.) Although the cost of the programs was of some consideration, cost was a small factor. This was due to the relatively small annual federal deficit (less than $35 billion average per year in the 1970s) and relatively small annual CCC outlay (average of $3 billion in the 1970s).

The agricultural and economic picture changed dramatically in the 1980s. The Carter Administration imposed a trade embargo against the U.S.S.R. in retaliation for its

invason of Afghanistan. Also, the dollar began gaining in value against other currencies as U.S. agricultural exports fell.

Corn exports peaked in the 1979/80 and 1980/81 crop years at 2.4 billion bushels. Exports have been falling since and are projected to be only 1.6 billion bushels in 1985/86. Wheat exports peaked at 1.8 billion bushels in 1981/82, but are projected to be less than one billion bushels in 1985/86. At the same time that exports were declining, the U.S. recorded bumper crops in 1981 and 1982. Commodity prices began falling, reaching depressed levels in 1982.

In an effort to maintain or increase exports, Congress provided for a three year short-term direct export credit program in the Tax Equity and Fiscal Responsibility Act of 1982. A $175 to $190 million program was provided for in each fiscal year 1983 through 1985. This was later increased to $325 million in the 1984 agricultural appropriations.

At the same time agricultural income was falling, the general economy was experiencing stagnant growth. The high inflation and interest rates of 1980 and 1981 brought about an awareness of a need to cut the growing budget deficit. The Gramm-Latta budgets and ensuing budgets attempted to cut the deficit. Meanwhile, the Federal Reserve pursued a restrictive monetary policy in an effort to bring inflation down.

The falling commodity prices combined with high interest rates resulted in farmers' equity falling, principally land prices and increased debt. (Land prices have fallen as much

as 50 percent between 1981 and 1985 in some areas.) The serious economic plight of the farmer resulted in the Administration implementing the PIK program in January 1983. The high participation rate and a severe drought in 1983 brought about a sharp decline in U.S. feed grains, soybeans, rice, and cotton production. Commodity prices made a sharp recovery.

Although the acreage reduction encompassed in PIK helped increase commodity prices, it created severe financial hardship for farm input suppliers, grain elevators, and the grain transportation sector. Thus a program that helped one segment of the farm sector severely hurt others. This sharply increased the awareness among the farm sector as to how important it is to increase exports for the financial well-being of all segments of the farm sector, rather than restricting production.

The combination of abundant U.S. and world production in 1984 and 1985 and falling exports have sent commodity prices falling. With commodity prices falling below the price support levels and well below the target prices, the cost of the CCC operations has increased sharply, reaching a projected peak of about $21 billion in fiscal year 1986.

Even with the increased federal spending, the financial condition of the farm sector has continued to deteriorate, reaching depressed levels not seen since the Depression. Falling commodity prices, reduced equity in the form of sharply reduced land values and increased debt, and high

interest rates on the debt relative to the low commodity prices have put the farm sector in a severe financial bind.

Efforts have been undertaken by Congress and the Administration to alleviate the situation. Recognizing the need for increased exports, Congress agreed to freeze the 1985/86 target prices in return for an Administration promise to implement an export enhancement program, later known as bicep. However, as of January 1986, only about $100 million in surplus commodities have been utilized. As the budget deficit and the negative trade balance have continued to expand rapidly, Congress provided for significantly enlarged export enhancement programs in the Food Security Act of 1985. The Act provides annually for $5 billion in guaranteed loans. The bicep program was expanded to provide $2 billion in surplus CCC commodities during the three fiscal years 1986 through 1988. The Act also provides for $325 million annually (cash or CCC owned commodities) to be used to counter or offset unfair trading practices of a foreign country. These funds are also to be used to aid exports in cases of favorable rulings under section 301 of the Trade Act of 1974.

The Food Security Act of 1985 also gave authority to the Secretary of Agriculture to drop the 1986/87 price support for wheat from $3.30 per bushel to $2.40 per bushel and corn from $2.55 per bushel to $1.92 per bushel. The Secretary implemented these changes in January 1986. The reduction in the price supports should increase the competitiveness of U.S. exports in the world market. It is likely that the other

major exporters will also drop their export prices to reduce their surplus stock levels and to garner badly needed hard currency. In the short run, U.S. exports are not likely to increase significantly from the decreased price supports, but exports should increase in the long run.

The importers' expectations of lower commodity prices, coming with the reduction in price supports, is currently further depressing commodity prices and thus, farm income. This further depressant on commodity prices, unfair foreign competition, and the rapidly growing budget deficit (which indirectly, adversely impacts agricultural exports) argues for a significantly increased export enhancement program.

The annual budget deficit has soared from $79 billion in fiscal year 1981 to an estimated $209 billion in fiscal year 1986 even after the $11.7 billion in cuts as mandated by the Balanced Budget and Emergency Deficit Control Act of 1985. The Act was enacted as a last resort to cut the deficit. Further cuts in price supports and deficiency payments, as are likely under this Act, will exacerbate the financial situation in the already depressed farm sector.

<u>Changing Political Picture</u>

Agricultural policy making was until recent years the domain of the Secretary of Agriculture (under the direction of the President) and Congress (principally the Agriculture committees and subcommittees). Agricultural export enhancement programs have been put in place through the enactment of legislation, such as direct credit programs, or

through an Executive Order, such as bicep. Pressures to cut the budget deficit have resulted in a shifting of power. OMB has increased its authority over agricultural programs in the 1980s through its efforts to cut the budget deficit.

The first significant effect of a budget deficit reduction effort on export enhancement programs was seen in 1980. President Carter's Fiscal Year 1981 Budget shifted $2 billion from direct short-term credit to guaranteed credit. This effectively reduced outlays by $2 billion while leaving the new credit level unchanged.

The PIK program in 1983 was an example of agricultural policy being made with dual objectives, i.e. supporting farm income and reducing the deficit. PIK did support farm income in 1983. It also shifted CCC expenditures from the 1984 fiscal year to the 1983 fiscal year with advanced deficiency payments and decreased storage payments as a result of reduced surplus stocks. The Administration was preparing the submission of the Fiscal Year 1984 Budget in January 1983 when PIK was announced. An objective of the Administration was to show a decrease in the annual budget deficit in fiscal year 1984 with little regard for the fiscal year 1983 deficit. PIK aided this goal. Although PIK was devised in the Department of Agriculture, the pressure from OMB to cut the deficit and CCC outlays was a significant factor in shaping this policy.

In recent years, agricultural legislation moving through Congress has been threatened with a Presidential veto if any program exceeded certain budget levels as established by the

Administration. Congress has also attempted to shape legislation that would stay within the budget ceilings imposed by the Congressional Budget Resolutions. Although these budget ceilings are nonbinding, Congress has attempted (often unsuccessfully) to stay within these ceilings with new legislation.

For example, the direct credit program (GSM-5) has a net budget outlay in the first years of operation, but over the life of the program it can result in a net budget reduction. Efforts to enact or increase funding for a direct credit program have been thwarted because it is not revenue-neutral in each year of operation. (See Appendix I.) A risk of a credit program is the potential for losses occurring from defaults.

The desire for a yearly revenue-neutral export enhancement program gave rise to the concept of an export PIK program, or bicep. Because the commodities used to reduce the effective export price have already been purchased by the CCC, there is no net outlay associated with bicep in any year. As long as bicep can show additionality in exports above the amount utilized from CCC stocks, the program can be shown to reduce CCC net outlays in each year of operation. (See Appendix II.)

The mounting pressure on Congress and the Administration to reduce the annual budget deficit resulted in the enactment of the Balanced Budget and Emergency Deficit Control Act of 1985. The $11.7 billion deficit reduction in fiscal year 1986

is insignificant compared to the potential $35 to $65 billion reduction needed in fiscal year 1987 to achieve the mandated $144 billion budget deficit objective. This reduction is likely to require a sharp reduction in funding for agricultural programs. The 1986 fiscal year reduction resulted in the effective price supports or target prices being reduced 4.3 percent. This type of reduction could be implemented again in fiscal year 1987, but more sharply.

The enactment of the Act provides for the possibility of other entities to effectively make agricultural policy changes. CBO and OMB must provide to GAO by August 15 a budget deficit estimate for fiscal year 1987 and a detailed account of how the fiscal year 1987 budget deficit target is to be achieved. GAO must issue a report to the President by August 20 based on the OMB and CBO findings. Should OMB and CBO disagree on any aspects of the budget, then GAO has the authority to arbitrate. The President is to issue a sequestration order by September 1, leaving Congress one month to respond with the final order taking effect on October 15, reflecting Congressional action.

Thus, it is possible for funding levels of agricultural programs to be significantly altered by CBO, OMB, and GAO. Agricultural policy is increasingly likely to be made with the principal objective of reducing the budget deficit and a lesser objective of establishing agricultural programs to help the farm sector.

APPENDIX I. DIRECT CREDIT PROGRAM

Year	1	2	3	4	Total
			($ million)		
Loan	100	0	0	0	100
Repayment	0	-33	-33	-33	-100
	100	-33	-33	-33	0
			(million bushels)		
Wheat exports[1]	30	0	0	0	30
35% additionality	10	0	0	0	10
			(cents/bushel)		
Change in domestic price[2]	+1	+1	+1	+1	+1
Change in deficiency payment[3]	-1	-1	-1	-1	-1
			($ million)		
Deficiency payment change[4]	-20	-20	-20	-20	-80
Total cost of program	80	-53	-53	-53	-80

[1]For illustrative purposes, only wheat is assumed to be exported with the purchase price of $3.30 per bushel, the loan rate.

[2]Assumes ten cents change in the market price for each 100 million bushel change in ending year stocks.

[3]Assumes the market price is between the target price and loan rate.

[4]Assumes a static situation in which only the wheat price changes, wheat production of 2.5 billion bushels and 80 percent of the wheat production eligible for deficiency payments.

APPENDIX II. BICEP

Year	1	2	3	4	Total
			($ million)		
Funding	(100)[1]	0	0	0	(100)[1]
			(million bushels)		
Total exports[2]	150	0	0	0	150
35% additionality	53	0	0	0	53
Subsidy[3]	-30	0	0	0	-30
Net additional	23	0	0	0	23
			(cents/bushel)		
Change in domestic price[4]	+2	+2	+2	+2	+2
Change in deficiency payment[5]	-2	-2	-2	-2	-2
			($ million)		
Deficiency payment change[6]	-40	-40	-40	-40	-160
Change in CCC storage cost	0	-8	-8	-8	-24
Total cost of program	-40	-48	-48	-48	-184

[1]Assumes no cost of purchasing the commodity since it is already owned by the CCC and assumes there is no possibility of resale in the foreseeable future.

[2]For illustrative purposes, only wheat is assumed to be exported with the purchase price of $3.30 per bushel, the loan rate.

[3]Assumes a subsidy of 20 percent.

[3]Assumes a subsidy of 20 percent.

[4]Assumes ten cents change in the market price for each 100 million bushel change in ending year stocks.

[5]Assumes the market price is between the target price and loan rate.

[6]Assumes a static situation in which only the wheat price changes, wheat production of 2.5 billion bushels and 80 percent of the wheat production eligible for deficiency payments.

Use Of All Existing Tools To Expand Markets For U.S. Agricultural Commodities And Products

Accompanying Information On Market Development

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MARKET DEVELOPMENT: UNTAPPED POTENTIAL?

Issue Statement

One of the primary stated missions of the Department of Agriculture (USDA) is the overseas promotion of U.S. food, feed, and fiber. Exports of these products are a major boon both to the agricultural sector as well as to the economy as a whole.

Export market development activities are carried out primarily by USDA's Foreign Agricultural Service (FAS). Funding for this agency, which represents a miniscule portion of the Department's annual budget, has risen slightly in recent years. A significant reduction in FAS funding, as proposed by the Administration's FY87 budget submission, could jeopardize the United State's share of a dwindling world market.

Agricultural Exports and the U.S. Economy

A healthy level of agricultural exports is extremely important to the American economy. Because the U.S. sells far more farm products to foreign nations than it buys from them, agricultural exports serve to cushion the balance of trade deficit. Despite a serious dropoff in agricultural exports since 1981, the U.S. has had a positive trade balance of approximately $10 billion in the past two years.[1/]

[1/] U.S. Library of Congress. Congressional Research Service. Patterns of Trade of Selected U.S. Agricultural Exports. Donna Vogt. 86-510 ENR. January 30, 1986. P. 8.

Agricultural exports also generate jobs outside the rural community. According to a recent study by USDA's Economic Research Service (ERS), "[e]ach dollar earned from agricultural exports stimulates another $1.37 of output in the U.S. economy. Approximately 80 percent of this additional activity accrues to the nonfarm sector."2/

Strong agricultural exports also contribute to the economic well-being of American farmers. Because the production from more than one in four acres goes into export channels, higher export levels usually translate into higher farm income.3/ A surge in exports may help stem the tide of farm bankruptcies. Generally speaking, in years when agricultural exports have grown, net farm income has also improved, and vice versa (see appendix 1).

Finally, agricultural exports save the taxpayers' money. It has been said that the farmer can either derive his income from the marketplace or from the Government. In the last few years, while exports have languished, direct Federal payments to farmers have amounted to roughly one-half of net farm income. If the U.S. succeeds in improving its share of world agricultural trade, commodity prices should gradually strengthen and farm program

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2/ U.S. Department of Agriculture. Economic Research Service. Agriculture's Links with U.S. and World Economies. Alden Manchester. Agricultural Information Bulletin No. 496. September, 1985. P. v.

3/ U.S. Department of Agriculture. Economic Research Service. International Economics Division. The U.S. Farmer and World Market Development. Arthur B. Mackie. AGES 830810. October, 1983. P. 6.

outlays--particularly deficiency payments--should diminish, saving billions of dollars of Federal expenditures.

USDA's Mandate: Increase Exports

In theory at least, USDA places a high priority on the objective of promoting U.S. farm goods in overseas markets. In explaining the mission of the Department of Agriculture, the U.S. Government Manual begins by stating that USDA "works to improve and maintain farm income and to develop and expand markets abroad for agricultural products."[4/]

The most extensive of USDA's market development programs is the cooperator program. This program had its beginnings in the 1954 Food for Peace (P.L. 480) act, which allowed a certain portion of foreign currencies generated by the sale of U.S. farm products to be used to develop markets for U.S. commodities. A decade later, Congress began appropriating funds directly for the program.

It is important to distinguish the market development activities of the cooperator program from the operations of USDA's various export credit and food assistance programs. While the latter certainly assist in creating access for American farm exports, they have three major differences from the cooperator program: 1) for the most part, credit is repaid; there is no Federal budget exposure unless the recipient nation defaults.

[4/] Office of the Federal Register. National Archives and Records Administration. The United States Government Manual: 1985-86. July, 1985. P. 94.

2) credit programs are short term in nature; they do not provide permanent or even multi-year assistance to foreign buyers. 3) they serve additional objectives, such as recapturing lost markets or supporting U.S. foreign policy.

It is also important to note that the cooperator program enjoys joint financial support. As the name implies, FAS operates this program in cooperation with numerous private, non-profit trade associations, which attempt to match or surpass Federal funding. Since the program began, FAS has provided $372 million; private contributions have amounted to approximately $703 million.

There are approximately 50 such commodity groups today, operating from a world-wide network of 61 overseas offices. In conjunction with FAS, the cooperators promote U.S. farm exports through technical assistance, trade show exhibits, advertising, and product demonstrations for potential customers.

Are Market Development Activities Cost-Effective?

Just how effective is the cooperator program? A Chase Econometrics study commissioned by U.S. Wheat Associates found that "each dollar contributed by producers for [wheat] market development purposes has returned $100 of additional income from wheat sales to the grower and returned $133 to the U.S. economy".[5/]

[5/] Chase Econometrics. Wheat Exports: Market Development Programs Increase Producer Income. 1984.

Another assessment of the cooperator program, prepared by Chase for the American Soybean Association, concluded that "[c]heckoff-funded export promotion creates soybean export sales and increased average U.S. soybean prices 8 cents a bushel yearly."6/

Is Enough Being Done for Market Development?

USDA, then, already has in place programs aimed at enhancing agricultural trade. And studies have shown that these programs are highly cost-effective. Moreover, the Department is clearly charged with the task of developing and expanding markets for U.S. agricultural products.

Is this dedication to market development reflected in the USDA spending and staffing priorities? To answer that question, one needs to examine the Department's budget as well as its personnel rolls.

USDA Budget. In Fiscal Year 1985, outlays for the U.S. Department of Agriculture were $55.5 billion. Of that amount, $76 million was earmarked for the entire operation of the Foreign Agricultural Service.7/ The FAS share, then, of USDA's budget

6/ Chase Econometrics. "Soybean Export Entry." 1982.

7/ This figure includes only funds directly geared toward FAS's market development activities. It does not include budget authority for GSM credit programs, which, if repaid, do not constitute direct Federal outlays. Nor does it include portions of the budget for the Food for Peace Program, which indirectly helps develop markets. Finally, it does not include resources for other agencies, such as the Agricultural Research Service, the Federal Grain Inspection Service, and the Office of International Cooperation and Development, which also conduct programs to enhance foreign markets for U.S. farm goods.

was .0014--just over one-tenth of one percent. Since not all of FAS's budget goes for market development, this means that for every 731 dollars the Department received in appropriations, it provided something less than one dollar for market development.

FAS's budget share has remained fairly constant over the past few years. From Fiscal Year 1978-1985, in fact, funding for FAS actually grew--though not at the same rate as the entire Department's budget (see appendix 2).

In its FY87 budget presentation, the Administration has proposed that FAS outlays be reduced by 14 percent--from an estimated $83.2 million in FY86 to $71.9 million.[8/] The major share of the recommended cuts would come out of foreign market development. FAS currently contributes 30 percent of market development activities (the other 70 percent is funded by the cooperator organizations); under the proposed FY87 budget, that contribution would be lowered to 20 percent of the total.

It has been argued that the proposed cutback will be compensated by an increase in various credit programs, including the Targeted Export Assistance program and the Export Enhancement program. While those increases are to be applauded for their potential in regaining lost markets, it must be remembered that, unlike FAS market development activities, these programs are short-term in nature, and that, for the most part, they do not constitute direct outlays.

[8/] U.S. Department of Agriculture. 1987 Special Budgetary Tables. P. 48.

A one-shot credit deal, for example, does not provide the buyer with the long-term expertise to deal with trade servicing problems. Increases in guaranteed credit activities, therefore, should not be used as a pretext to reduce Federal market development efforts.

USDA's 1987 budget summary also defends the FAS cuts by claiming that they are "consistent with government-wide efforts to place greater reliance on private sector resources for these types of activities."9/ There is an element of risk in this logic: with grain sales depressed, cooperators may not be in a position to up their share of the U.S. foreign market development efforts; they may even follow the government's lead and reduce their own financial commitment to these activities.

USDA Personnel Levels. Another way of assessing the government's commitment to agricultural export market development is to tally up the number of people engaged in these activities. USDA estimates 108,750 staff years in FY86 for the entire Department; of that, only .6 percent (790--a number which includes GSM staff) are FAS personnel. When the latter number is broken down further, we find that 227 employees, including support staff, are engaged in promotional and market development activities on a day-to-day basis, and a mere 25 full-time, Washington-based professional staff are responsible for the entire range of international trade policy issues.

9/ P. 20.

To get some perspective on these figures, we may compare them to the number of people working for the Department of State's Agency for International Development (AID). AID estimates that, for FY86, it has 2,826 direct hire personnel working abroad (this number includes 1,526 Americans and 1,300 foreign nationals; it does not include those working for AID on contract).[10/] FAS, in contrast, has 268 individuals posted abroad--less than 10 percent of AID's personnel strength.

Conclusion

As noted earlier, the Foreign Agricultural Service presents an especially tempting target for budget-cutters, not only because its activities are shared with the private sector, but also because its work is generally long term in nature: developing markets through altering dietary preferences, for example, is a slow process; it does not provide immediate budgetary gratification. But when the dietary pattern of a foreign country has been changed, commodity demand--and U.S. exports--have been permanently expanded.

In a time when both Congress and the Executive Branch are grappling with questions over how to reduce the massive Federal budget deficit, across-the-board spending cuts can seem highly attractive. Such an approach lends an appearance of equity: when all agencies are instructed to reduce their budgets by an

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10/ U.S. Department of State. Agency for International Development. Congressional Presentation, Fiscal Year 1987. Main volume. P. 156. [Note: Employees hired on a contract basis are not included.]

equal amount, it can be claimed that all share in bearing the burden.

However, when the operations of a small agency--such as the export market development activities of FAS--serve ultimately to reduce the Federal deficit, then slashing that agency's budget would seem to be penny-wise and pound-foolish.

APPENDIX 1.

U.S. Agricultural Exports
and Net Farm Income, 1978-1986

	Agricultural Exports	Net Farm Income
	(in billions)	
1986*	28.0	21-25
1985*	31.2	29-32
1984	38.0	34.5
1983	34.8	15.0
1982	39.1	24.6
1981	43.8	29.8
1980	40.5	20.2
1979	32.0	31.7
1978	27.3	27.4

* Forecast

SOURCE: U.S. Department of Agriculture. Economic Research Service. Agricultural Outlook. April, 1986

APPENDIX 2.

Outlays: U.S. Department of Agriculture (USDA) and Foreign Agricultural Service (FAS), Fiscal Years 1978-1986

	USDA	(in millions)	FAS
1987*	45,142		71.9
1986**	55,049		83.2
1985**	55,523		76.3
1984	37,471		73.7
1983	46,395		70.7
1982	36,216		58.7
1981	26,037		54.3
1980	24,557		53.9
1979	20,638		45.8
1978	20,372		40.4

* Proposed
** Forecast

SOURCE: U.S. Department of Agriculture. 1987 Special Budgetary Tables.

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Use Of All Existing Tools

To Expand Markets For

U.S. Agricultural Commodities

And Products

Other Accompanying Information

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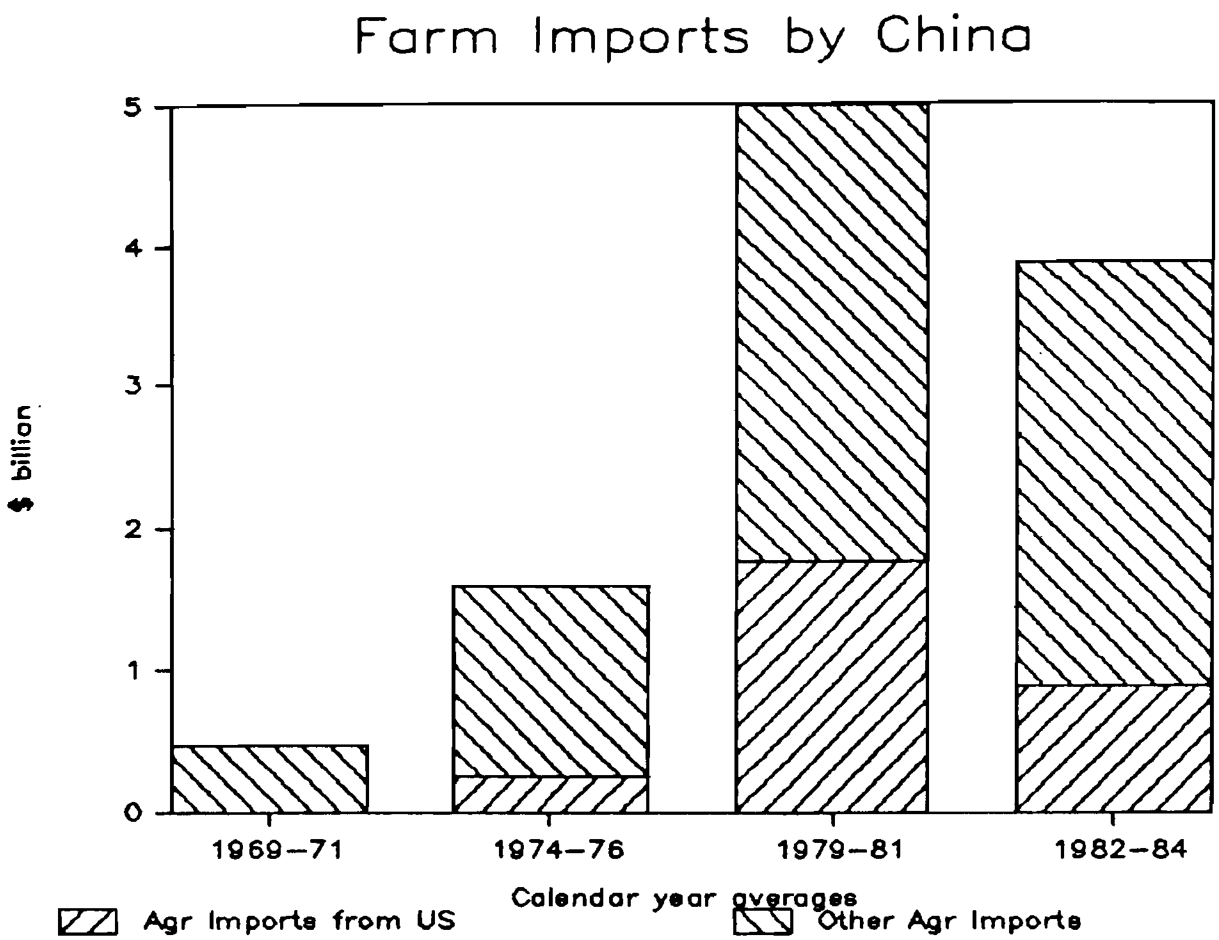
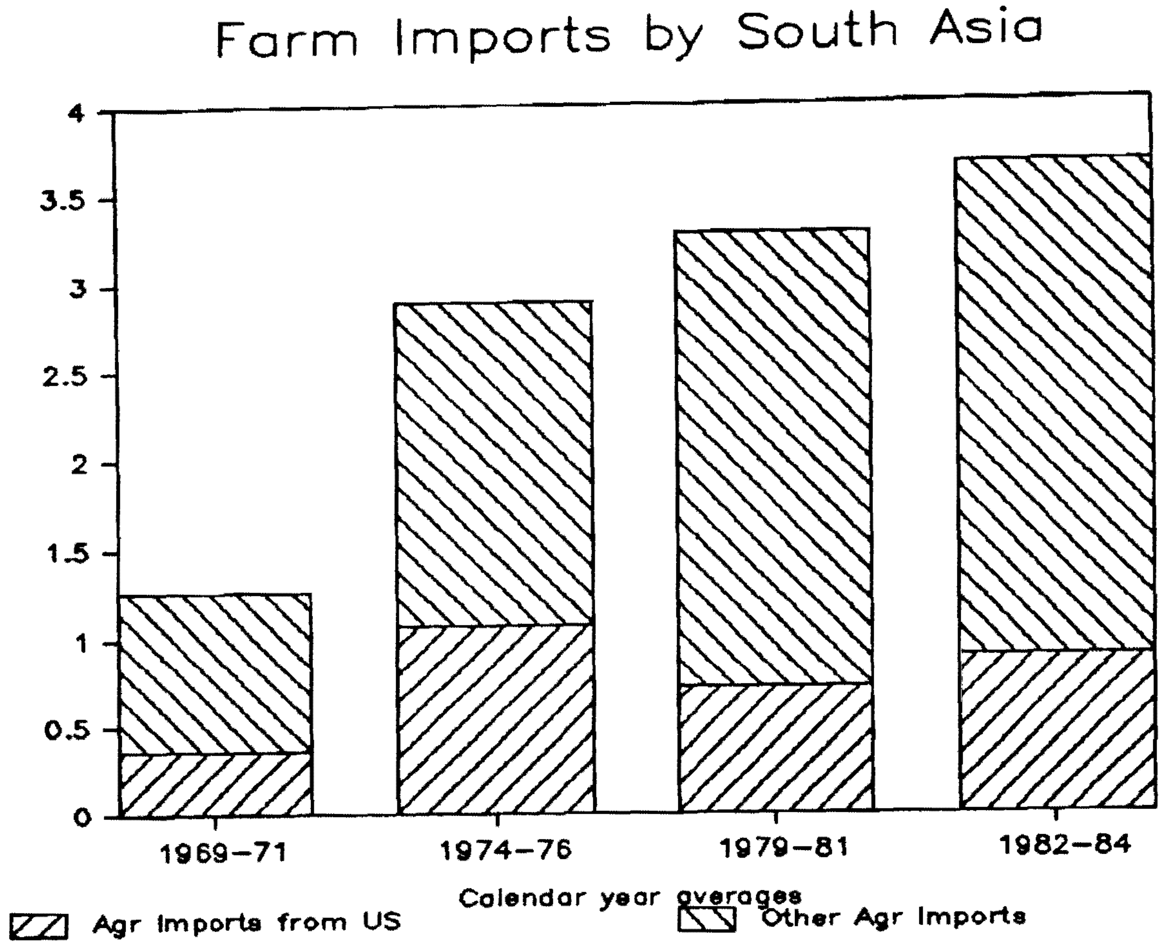
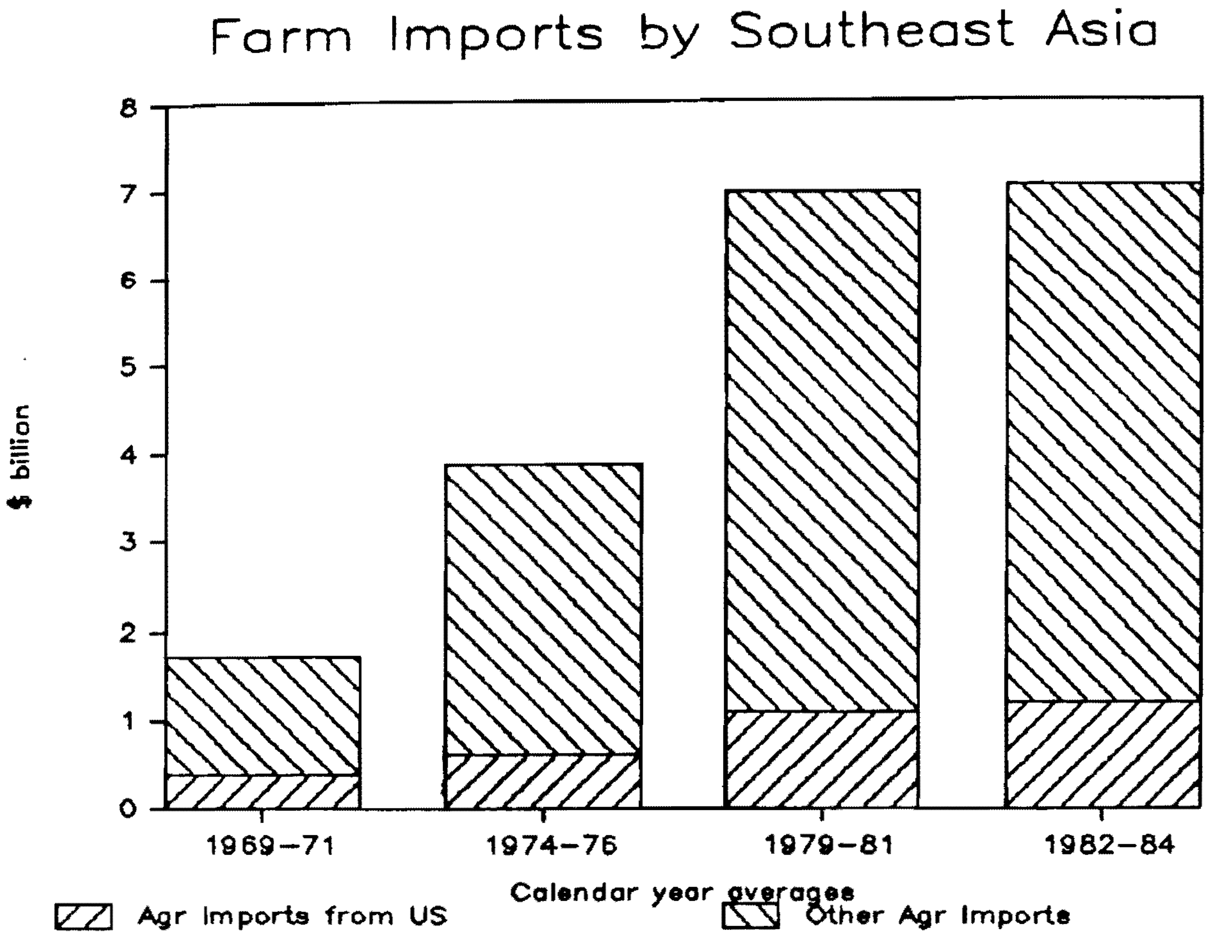
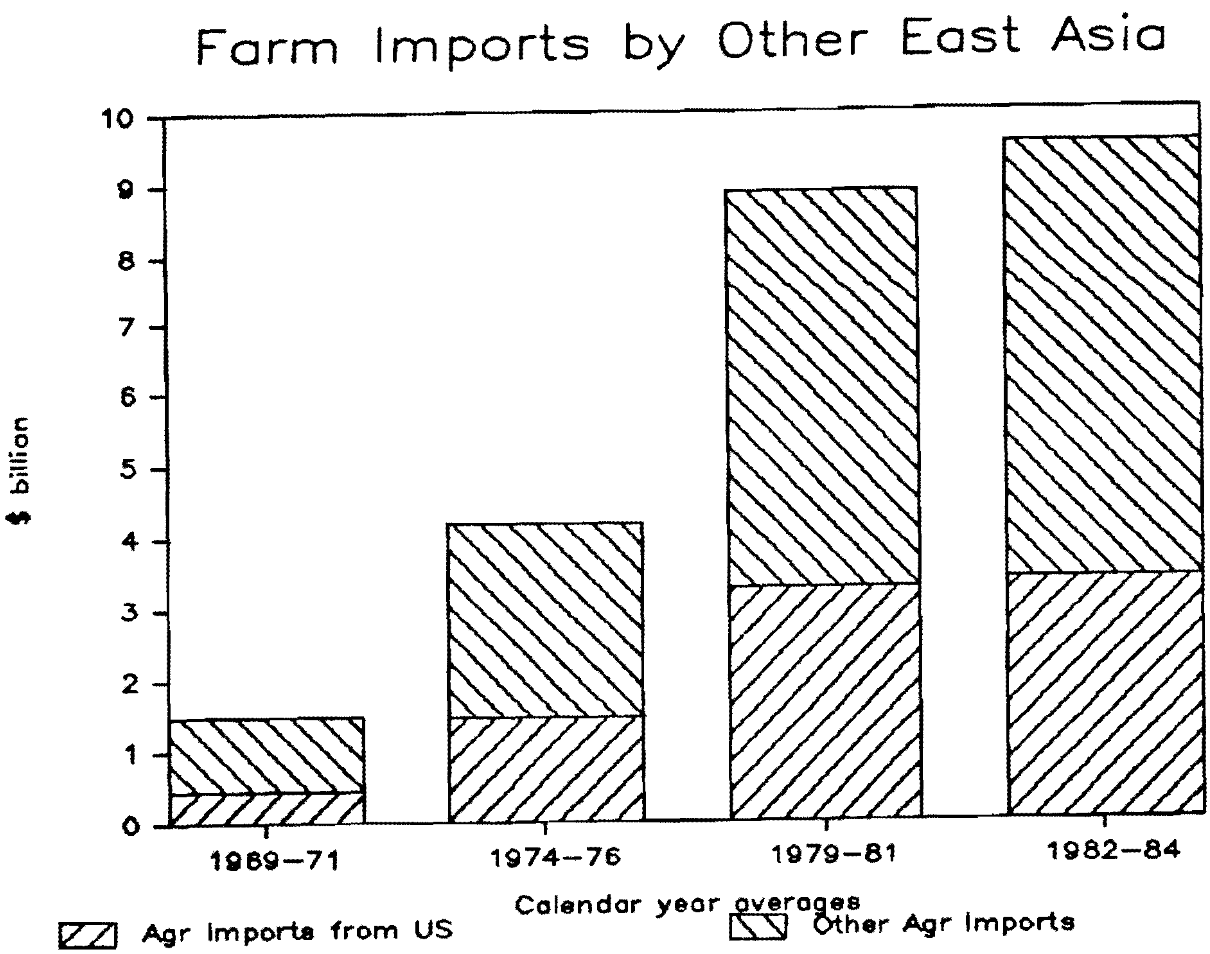
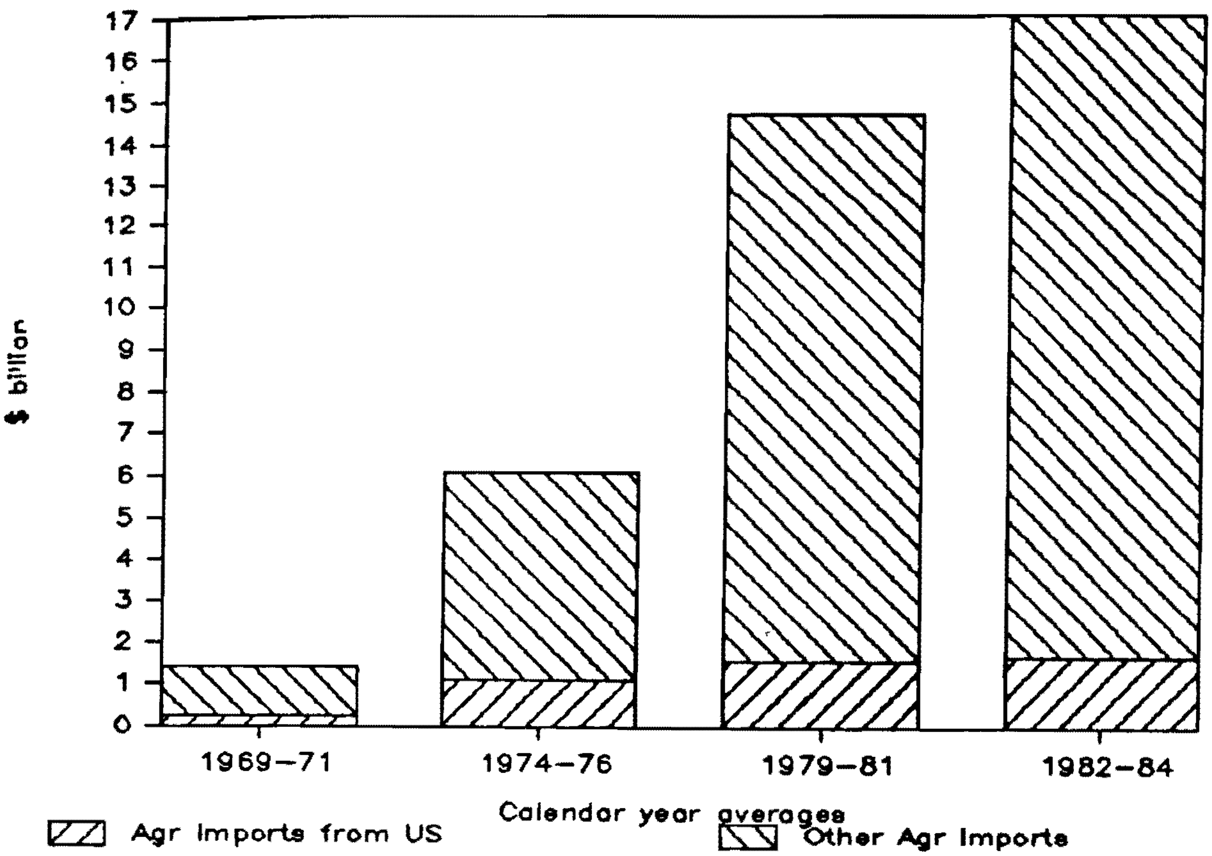

Farm Imports by China
$ billion
5
4
3
2
1
0
1969–71
1974–76
1979–81
1982–84
Calendar year averages
Agr Imports from US
Other Agr Imports

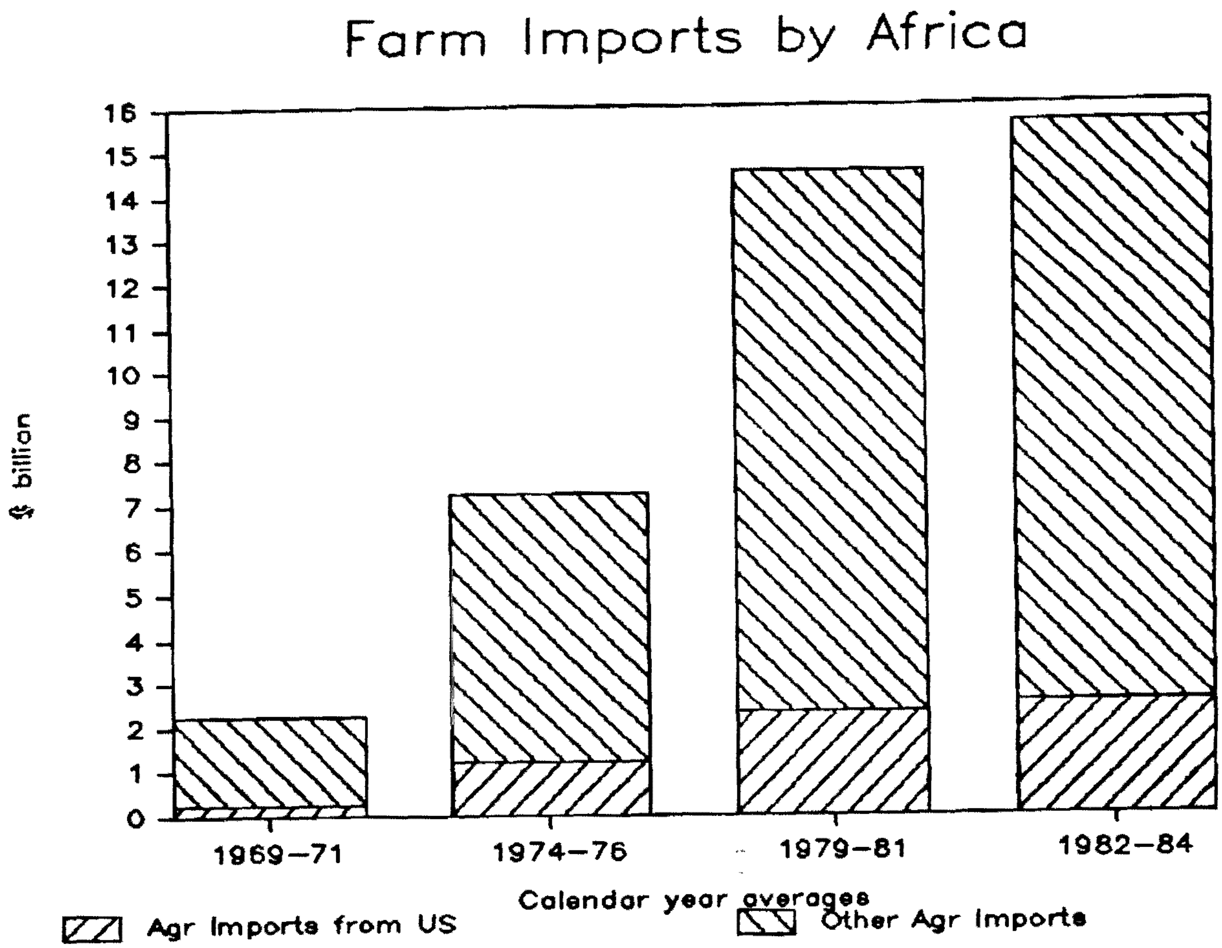

Farm Imports by South Asia
4
3.5
3
2.5
2
1.5
1
0.5
0
$ billion
1969–71
1974–76
1979–81
1982–84
Calendar year averages
Agr Imports from US
Other Agr Imports


Farm Imports by Southeast Asia
8
7
6
5
4
3
2
1
0
$ billion
1969–71
1974–76
1979–81
1982–84
Calendar year averages
Agr Imports from US
Other Agr Imports


Farm Imports by Other East Asia
10
9
8
7
6
5
4
3
2
1
0
$ billion
1969–71
1974–76
1979–81
1982–84
Calendar year averages
Agr Imports from US
Other Agr Imports

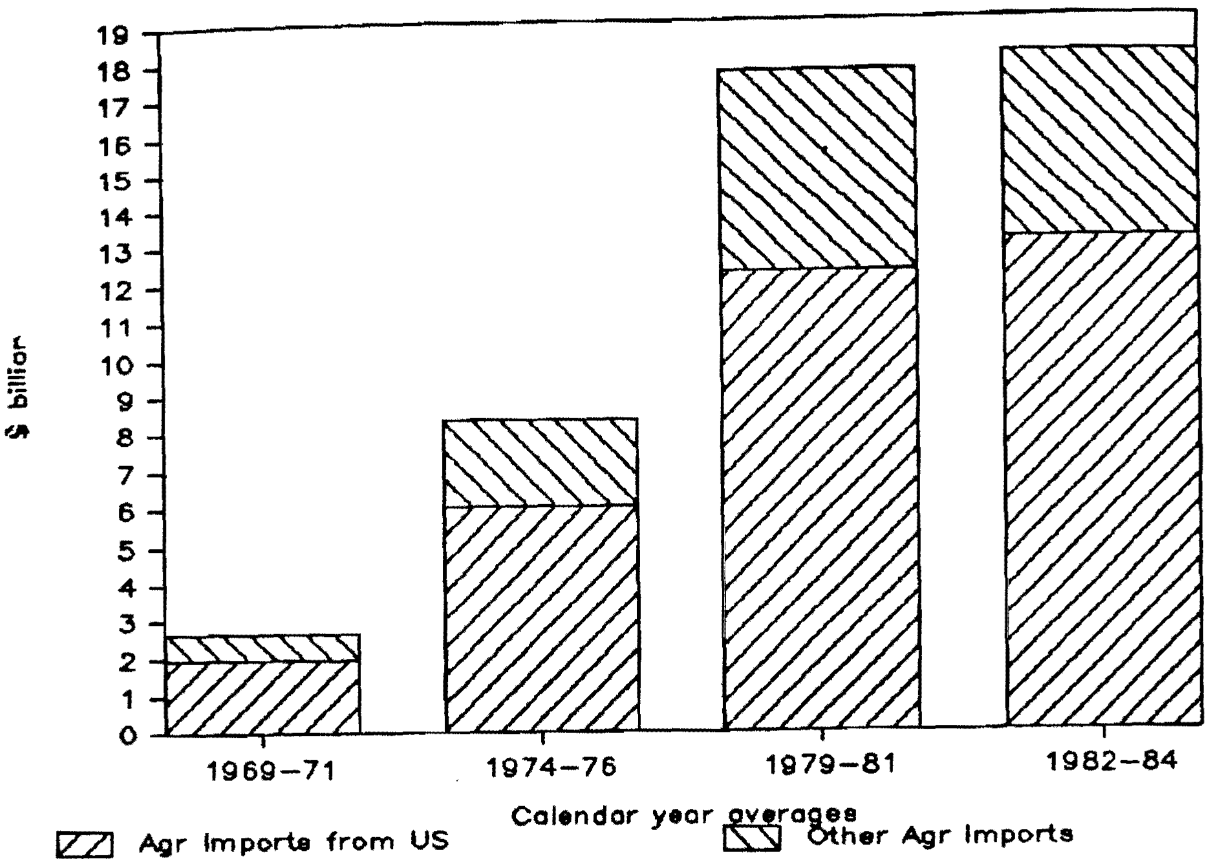
Farm Imports by the Mideast





Farm Imports by Africa
$ billion
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
1969–71
1974–76
1979–81
1982–84
Calendar year averages
Agr Imports from US
Other Agr Imports

Farm Imports by Latin America



USDA EXPORT PROGRAMS: COMMERCIAL, CONCESSIONAL, AND OTHER AUTHORIZED

(IN MILLION DOLLARS)

YEAR	COMMERCIAL EXPORT CREDIT PROGRAMS						PUBLIC LAW 480 (CONCESSIONAL) PROGRAMS				OTHER CCC AUTHORIZED PROGRAMS			TOTAL E C PROGRAMS	TOTAL AGRICULTURAL PRODUCT EXPORTS	PERCENT OF AG. EXPORTS
	GSM-5	GSM-101	GSM-102	GSM-201	GSM-301	TOTAL	TITLE I/III	TITLE II	SECTION 416 1/	TOTAL	BARTER	DIRECT SALES CCC OWNED STOCKS	TOTAL			
1955						0.0	73.0	186.0		259.0	124.6		124.6	384.4	3,144.0	12.2
1956	1.4					1.4	438.0	247.7		686.5	298.4		298.4	986.3	3,496.0	28.2
1957	4.6					4.6	907.0	216.0		1,124.6	400.5		400.5	1,529.7	4,728.0	32.4
1958	11.9					11.9	657.5	223.7		881.2	99.0		99.0	992.9	4,003.0	24.8
1959	38.7					38.7	724.1	160.9		885.0	132.2		132.2	1,055.9	3,719.0	28.4
1960	0.0					0.0	823.9	142.0		966.7	149.2		149.2	1,116.7	4,519.0	24.7
1961	10.0					10.0	951.5	220.9		1,172.4	143.9		143.9	1,334.3	4,946.0	27.0
1962	32.0					32.0	1,048.4	248.7		1,297.1	198.4		198.4	1,528.3	5,142.0	29.7
1963	76.6					76.6	1,145.3	263.5		1,408.8	47.4		47.4	1,532.8	[illegible]	30.2
1964	110.4					110.4	1,104.6	270.0		1,374.6	43.5		43.5	1,536.5	[illegible]	25.3
1965	94.5					94.5	1,299.0	230.7		1,530.5	31.9		31.9	1,664.9	6,097.0	27.3
1966	210.0					210.0	1,047.6	266.5		1,314.1	32.1		32.1	1,556.2	6,747.0	23.1
1967	339.3					339.3	981.0	267.4		1,248.4	22.4		22.4	1,610.1	6,821.0	23.6
1968	140.6					140.6	1,022.8	250.1		1,272.9	6.3		6.3	1,419.8	6,331.0	22.4
1969	116.0					116.0	773.7	264.7		1,038.4	1.4		1.4	1,155.8	5,751.0	20.1
1970	211.3					211.3	815.3	240.6		1,055.9	0.0		0.0	1,267.2	6,958.0	18.2
1971	390.0					390.0	743.0	279.9		1,022.9	0.0		0.0	1,413.7	7,955.0	17.8
1972	371.6					371.6	679.0	403.7		1,082.7	0.0		0.0	1,454.3	8,242.0	17.6
1973	1,078.5					1,078.5	667.4	290.0		957.4	0.0		0.0	1,985.9	14,984.0	13.3
1974	297.9					297.9	575.4	282.2		857.6	0.0		0.0	1,155.5	21,559.0	5.4
1975	248.6					248.6	762.0	334.4		1,096.4	0.0		0.0	1,345.0	21,817.0	6.2
1976 2/	956.9					956.9	1,006.2	378.0		1,384.2	0.0		0.0	2,341.1	22,742.0	10.3
1977	755.3					755.3	762.1	362.0		1,124.1	0.0		0.0	1,879.4	23,974.0	7.8
1978	1,587.5					1,587.5	738.0	337.0		1,075.0	0.0	16.9	16.9	2,675.2	27,289.0	9.8
1979	1,527.4	63.2				1,590.6	792.7	393.0		1,185.7	0.0	17.0	17.0	2,794.1	31,979.0	8.7
1980	717.9	698.1	671.0	1.0	17.5	2,105.5	865.3	508.9		1,374.2	0.0	41.4	41.4	3,521.1	40,481.0	8.7
1981	0.6	118.6	1,743.6			1,862.8	790.6	584.0		1,375.4	0.0	160.0	160.0	3,398.2	43,780.0	7.8
1982	0.0		1,386.5			1,386.5	722.5	405.6		1,128.1	13.0	16.5	29.5	2,544.1	39,095.0	6.5
1983	129.8		3,939.4			4,069.1	887.7	397.7	87.2	1,292.6	0.0	80.7	80.7	5,442.4	34,776.0	15.6
1984	82.3		3,564.0			3,646.3	774.4	459.0	158.9	1,392.3	20.4	80.7	101.1	5,139.7	38,013.0	13.5
1985	325.0 3/		5,000.0 3/			5,325.0	1,106.0	1,001.0 4/	146.7	2,253.7	0.0	19.4	19.4	7,598.1	35,500.0	21.4
1986 4/	0.0		5,000.0				1,030.0	650.0	n/a		n/a	n/a			n/a	

FOOTNOTES:

1--Market value

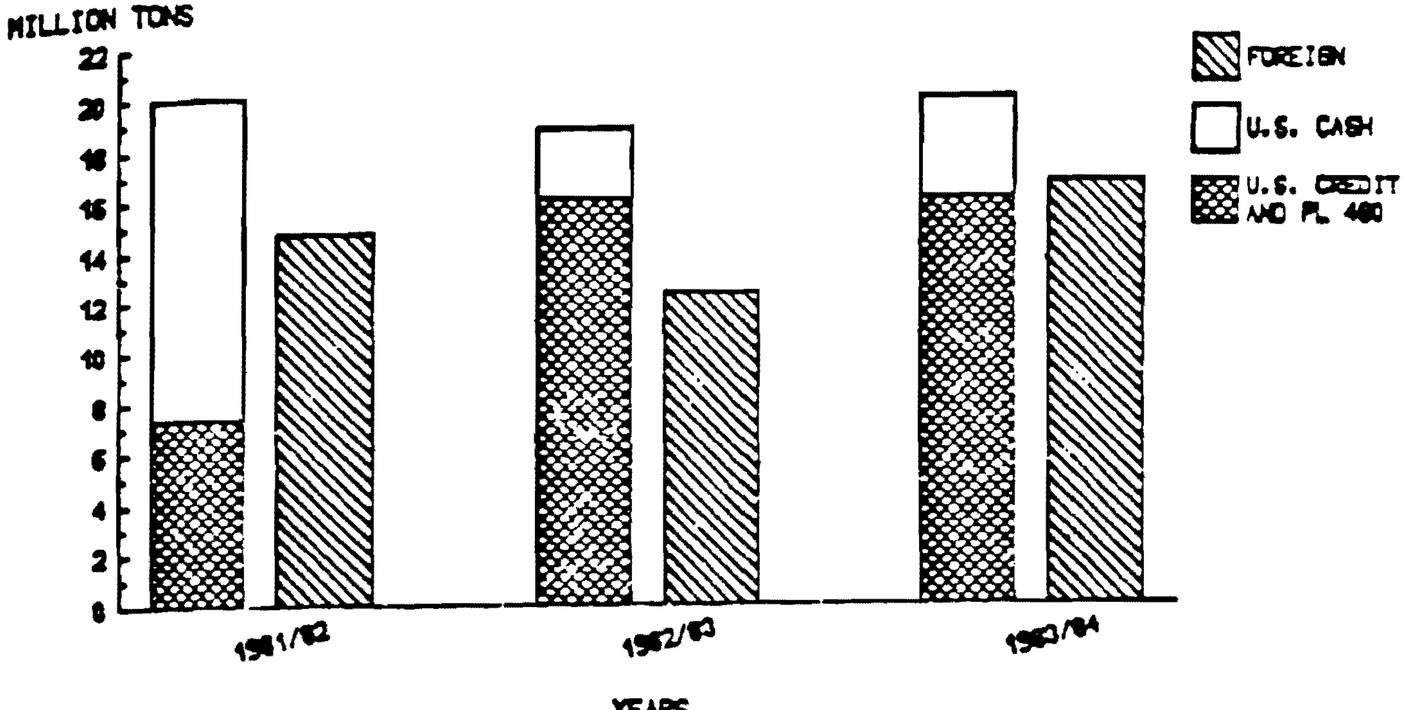
2--Includes transitional quarter

3--Authorized level

4--Estimated

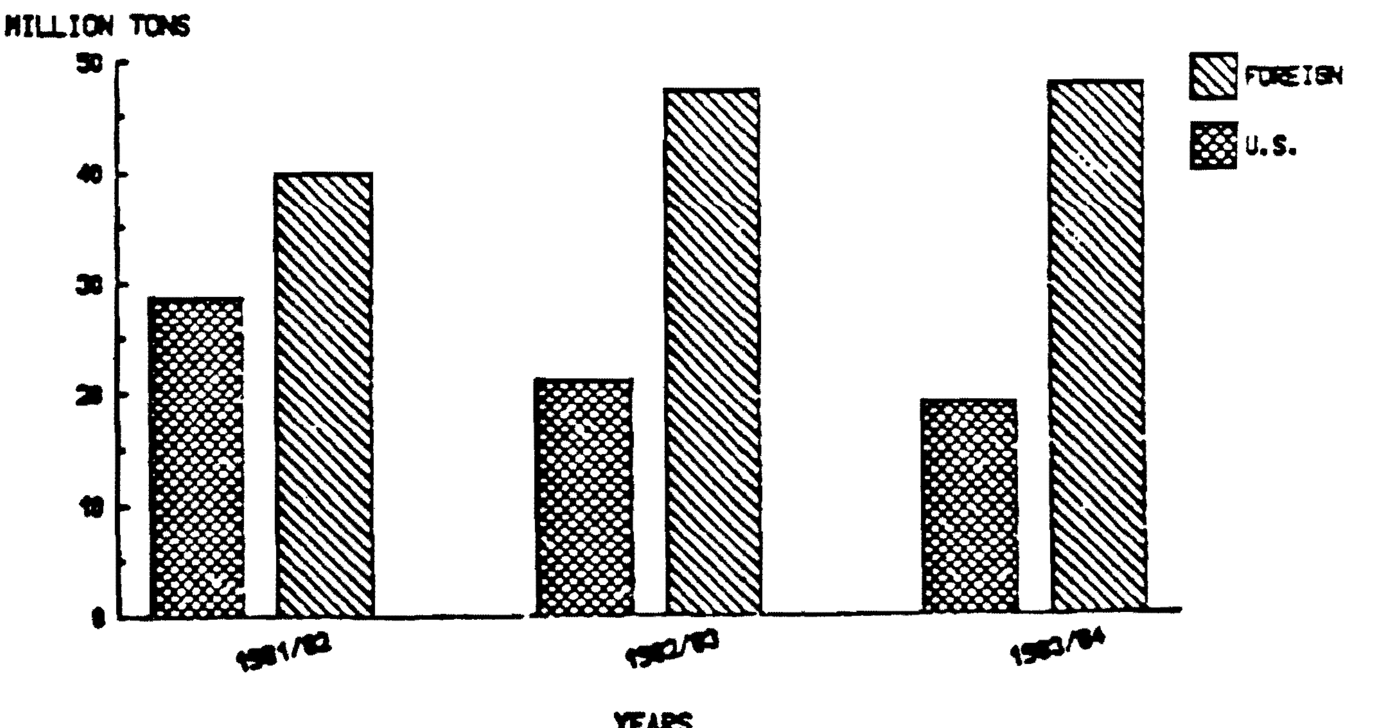
U.S. AND FOREIGN WHEAT EXPORTS TO:

COUNTRIES IMPORTING ON CREDIT, AID, AND CASH 1/



1/ THOSE COUNTRIES IMPORTING WHEAT USING PL 480 & GSM ALONE OR ALONG WITH CASH

ALL OTHER COUNTRIES 2/



2/ THOSE COUNTRIES IMPORTING WHEAT USING CASH ONLY FOR PURCHASE

Benefit/Cost Analysis
GSM 102 Credit Program - FY 84

Assumptions and Method

Costs

1. A 35% additionality factor is assumed (i.e. \$4.0 billion times 35% equals \$1.4 billion additional exports).

2. Credit package was distributed among the countries in five rescheduling risk probability categories ranging from 0 to 90% chance of rescheduling.

3. A principle write-off of 25% and 15% in the top two risk categories respectively was assumed.

4. On rescheduling a 3 year grace period and a 10 year amortiz..ion of the balance was assumed.

5. A rescheduling interest rate of 8% and a market interest rate of 12% were assumed (i.e., a 4 percentage point interest differential between market and rescheduling interest rates.

6. All future values were discounted to present value with a 12% discount rate (i.e. equal to the assumed market interest rate).

Benefits

1. Increased Federal Government tax revenues at 3% of the additional export value.

2. Farm program storage cost saving for 3 years on additional export value.

3. CCC credit guarantee fees collected.

Results

	Present value of: Benefits 1/	Costs 2/	B/C
1. Without deficiency payment savings	324	247	1.3

2. CCC budget outlays would approximate \$393 million in each of the years 1985, 1986 and 1987 for a total of \$1.2 billion projected reschedulings.

1/ Present value of benefits include the discounted value of the additional tax revenues, storage cost savings, credit guarantee fees collected.

2/ Present value of costs include the discounted value of net outflows associated with reschedulings.

IMPROVED MANAGEMENT OF U.S. INTERNATIONAL AND DOMESTIC ECONOMIC POLICIES WHICH AFFECT AGRICULTURAL TRADE INTERESTS

IMPROVED MANAGEMENT OF U.S. INTERNATIONAL AND DOMESTIC ECONOMIC POLICIES WHICH AFFECT AGRICULTURAL TRADE INTERESTS

POLICY STATEMENT

The architects of current U.S. economic policy should give greater attention to the impact of such policy on U.S. agriculture.

Fiscal policy should continue to reflect the need to reduce the federal deficit. Domestic and international monetary policy should give greater emphasis to the need to stabilize exchange rates and establish a value for the U.S. dollar that assures efficient U.S. industries the ability to compete in international markets. Tax policy should be designed with an eye to maintaining a favorable economic climate for investment in technologies and enterprises that enhance U.S. competitiveness.

Improved overall synchronization of such policies is required to ensure a consistent and orderly international trade environment.

In general, fiscal and monetary policies of the federal government should reflect a much higher priority on achievement of national economic benefits through expanded agricultural trade.

RECOMMENDATIONS

The Commission recommends:

1. **Efforts continue to reduce the size of the federal deficit.**
2. **Policies continue to emphasize stabilization of wide fluctuation of exchange rates and establishment of a value of the U.S. dollar that complements U.S. competitiveness.**
3. **Tax incentives be provided to stimulate additional investment in research and basic infrastructure that enhances U.S. competitiveness.**
4. **Additional efforts be undertaken to coordinate fiscal, monetary, and tax policies to provide a favorable economic climate for international trade.**

Budget Reduction

Efforts to reduce the federal deficit should provide sufficient scope for the maintenance of necessary federal support of expanded U.S. agricultural exports and producer income.

Exchange Rate Policy

Efforts to stabilize fluctuations in exchange rates should be by negotiation with other major currency nations and by appropriate domestic monetary policy.

The Commission commends the Administration for its recent efforts to negotiate a regime to stabilize exchange rate fluctuations and to provide for reform of the international monetary system. The focus of such negotiations should be broader than that of the recent G-7 country negotiations, and should involve participation by a wider group of major currency countries. **Substantial progress in such matters must be in evidence, prior to convening general negotiations on trade matters.**

U.S. representatives to such negotiations should be attentive to the achievement of the following objectives:

(a) Stabilization of U.S. dollar value at levels in relation to the currencies of other major trading nations that assure efficient U.S. industries the ability to compete in international markets.

(b) Establishment of an ongoing mechanism to correct significant swings in exchange rate values. **Due consideration should be given to renewed U.S. participation in an institutional arrangement with other major currency countries that would facilitate ongoing and orderly U.S. and foreign government monetary intervention to correct exchange rate values, subject to triggers as agreed upon.**

(c) Agreement by major industrial nations to seek confluence of domestic economic policies, with an emphasis on expanded levels of non-inflationary private sector growth, liberalized government policy towards the private sector, and liberalized

policy with respect to market access and trade.

Tax Policy

Proposals to reform current tax law should give appropriate emphasis to the maintenance of necessary incentives to stimulate additional domestic investment in research and basic infrastructure that enhances U.S. competitiveness. **Greater attention should be given to the need to increase domestic gross savings.** Additional domestic savings can reduce the nation's dependence upon foreign capital to fund investment, and, as a corollary effect, lessen the impact of such foreign capital inflows as a factor in dollar valuation. Consequently, consideration of incentives to increase domestic personal savings is recommended.

Policy Coordination

To provide greater accountability of the impact of U.S. monetary policy on trade, and to ensure greater predictability of government policy in respect to exchange rates, legislation should be enacted to require the President and the Federal Reserve Board to take greater account of exchange rate influences on trade in determining appropriate fiscal and monetary policy that directly or indirectly results in changes in the value of the U.S. dollar.

The President should be required to include in his annual Economic Report his forecast of U.S. dollar valuation in the year covered by the Report, to include a statement as to:

(i) The impact on trade of such dollar valuation;

(ii) The need for correction in such dollar valuation; and

(iii) The President's recommendations regarding U.S. and international action in relation to such dollar valuation.

The Federal Reserve Board should be required to report to Congress their forecast of the impact on U.S. trade of policy undertaken by the Federal Reserve Board in any meeting of the Federal Open Market Committee, within thirty days following the meeting of such Committee.

Appropriate attention should be given by the President to the appointment of forceful U.S. agricultural trade spokesmen who shall participate in high-level deliberations of the Administration in respect to the design and implementation of fiscal and monetary policy.

COMMENTARY

The health of American agriculture, now more than in any previous period of its history, is determined by a host of worldwide macroeconomic factors, many of which are directly shaped by governments through the medium of fiscal and monetary policy.

American agriculture's awareness of the importance of macroeconomics in the total circumstances affecting U.S. agricultural trade is not a new phenomenon. Yet, our recent experience with the fluctuating and more recently, high-valued U.S. dollar has brought these issues to the forefront of most discussions on the future of U.S. agricultural exports.

No single factor has played a more important role in the recent downturn in U.S. farm exports than the high-valued U.S. dollar. A high-valued dollar acts much as a tax on U.S. agricultural exports, eroding U.S. competitiveness, raising foreign costs of purchasing U.S. farm products, and resulting in a decline in foreign demand for U.S. farm goods.

While the dollar has declined in recent months in relation to a number of other currencies, there has been only minimal immediate or corresponding reflection of this depreciation in terms of expanded U.S. agricultural exports. The impact of the rapid run up in the value of the dollar which occurred during 1981 through 1985 continues to be seriously felt.

Exchange rates are not the only major macroeconomic issue facing agriculture today. The continuing and very serious budget deficit of the federal government, which affects both exchange rates and interest rates, also influences the environment in which U.S. agriculture produces its goods and services. Agriculture is affected by changes in tax policy. It is also directly affected by the overall process by which our nation's economic policy is designed and implemented. In short, **there is no general macroeconomic trend facing the entire na-**

tion from which agriculture is immune. Conversely, the performance of U.S. agriculture in world markets plays back into the set of worldwide economic circumstances our nation and the world currently face, and features as a condition of worldwide economic development and growth.

Background

The entry of U.S. agriculture onto the global stage in the 1970s added a new dimension to the American farming sector. During that period, foreign demand for many U.S. farm commodities soared, and our farmers rose to the challenge: U.S. planted crop acreage increased by over 70 million acres in the 1970s. By the end of that decade, the production of nearly four out of every ten acres harvested by U.S. producers was sent by barge, road, or rail to export terminals, and then shipped abroad to foreign buyers.

Economists have identified several reasons for the market explosion of the last decade: increased world economic growth, favorable interest and exchange rates, diminished foreign production, a larger world money supply, and rising populations – all of these factors brought the whole world shopping in American farm markets.

Since 1981, however, U.S. agricultural trade has experienced a sharp decline. Agricultural exports, which peaked at $45 billion in 1981, are forecast to be $27.5 billion this year. If we are going to turn this trend around, then it is important for us to note that several of the key factors cited above originated not so much in the farm sectors, but rather in <u>macroeconomic</u> adjustments in the world economy. And it was macroeconomic forces which in large part accounted for the subsequent decline in agricultural trade in the 1980s. All of the factors which once worked in our favor now seem to have been thrown into reverse gear.

At the outset of the 1980s, the world economy experienced a number of macroeconomic shocks – a global recession, the Third-World debt crisis, and continued high real interest coupled with much lower inflation. These forces caused exports, land values, and commodity prices to drop. Interest rates and farm debt remained high, and Federal payments to farmers reached unheard of levels. And, because the United States had become so dependent upon international markets, the fall in exports was especially devastating for farmers' income.

U.S. policymakers must work to counteract the detrimental effects of macroeconomic policies upon agriculture. Our influence on an international scale is limited, of course. But there are positive actions which can be taken.

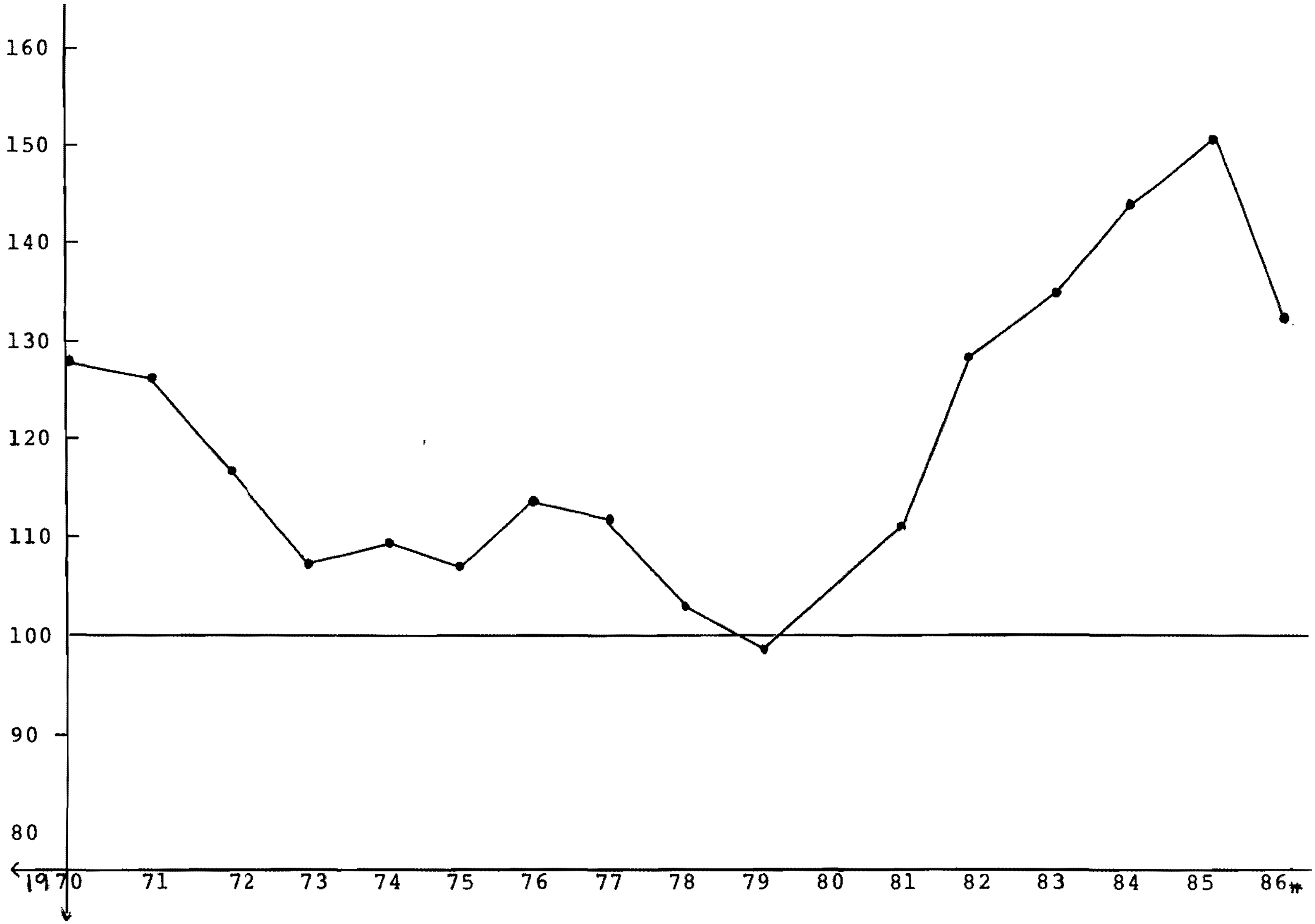
For example, the rise in the value of the dollar and continued high interest rates puts enormous pressure on what many believe is the major growth market for U.S. farm goods: middle income developing countries. The 1980-1982 world recession, accompanied by the Third World debt crisis, made access to credit impossible for many of our better customers. Some of the well known austerity measures imposed by the International Monetary Fund – that borrowers import less and export more – only exacerbated conditions for U.S. agricultural exporters.

Because the strength of the dollar and high interest rates worsen the credit crunch for developing countries, better management of the U.S. fiscal and monetary policy mix would go a long way toward putting these countries back on the path to prosperity. But it is also crucial that the U.S. government, both unilaterally and working in concert with international organizations, strengthen programs to foster economic growth in the Third World. The Commission's recommendations in this regard are addressed elsewhere.

Exchange Rates

The impact which exchange rates have had upon agricultural trade in recent years is perhaps the most striking example of how macroeconomic forces can operate to the detriment of the farming sector. In any study of recent trends in U.S. agricultural exports, exchange rates usually receive top billing in a roster of major influences on trade. There is good reason for this. Before an importing country buys American grain, it must first buy American currency. When the value of the dollar changes,

EFFECTIVE EXCHANGE RATE OF U.S. DOLLAR
1980 = 100



1980=100

First 2 QTRS

the prices of underlying U.S. commodities are also affected.

The exchange rate is the cost of one currency in terms of another currency. When a unit of domestic currency will buy more of a foreign currency now that it did in the past, the domestic currency is said to have strengthened (or appreciated) relative to the foreign currency. If dollars are a great deal more expensive today than they were a year ago, but the price of corn, for example, has not changed substantially, the importer will be able to buy fewer bushels for the same number of yen, lira, or pesos.

Between 1980 and 1984, the American dollar appreciated by approximately 31 percent vis-a-vis other major currencies. Because the stronger dollar meant that importers around the world had to pay a higher effective price for U.S. commodities, they bought less.

The consequent drop in exports had a devastating effect upon prices received by American producers. The decline in overseas demand forced farm gate prices down over the years, to a point where they fell below the nonrecourse loan rates. Once that happened, farmers forfeited their loans and turned their crops over to the Commodity Credit Corporation. Thanks to a strong dollar, the U.S. government, rather than importers, became the principal market for corn, wheat, and soybeans.

Because trade is influenced by a multitude of factors, it is difficult to determine exactly how much of the loss in U.S. agricultural exports is directly attributable to the strength of the dollar. A 1983 ERS report estimated that "a 20-percent rise in the value of the dollar will reduce farm exports by 16 percent." Other data provides a clearer picture.

According to USDA, in June 1980 the U.S. wheat price of $3.55 per bushel translated into $3.06 Australian. By June 1984, the Australian price for that bushel of U.S. wheat had increased to $4.10 Australian. Australian producers could sell wheat in foreign markets at below U.S. prices and earn a return greater than that received in 1980.

The impact of the dollar's rise on other competitor nations has been equal or greater. The U.S. dollar appreciated in value against the Australian dollar by 23 percent in the period 1981-84. In the same period, according to the U.S. Treasury, the dollar rose by 60 percent against the French franc and over 13,300 percent against the Argentine peso. Argentine wheat, soybeans, and soybean meal and oil can be sold in the world markets at below U.S. prices, despite a hefty export tax that was equivalent to roughly one-quarter of the Argentine export price for soybeans in 1984. **The growth of the Argentine soybean industry has been sustained in recent years in part as a result of the rise in the value of the dollar.** Argentina produced 695,000 metric tons of soybeans in 1975-76. By 1983-84, Argentine soybean production had expanded to 5.3 million metric tons. Similar data exists for almost every major U.S. agricultural commodity and product.

Leading competitors of the United States enjoy expanded export market opportunities in the United States and every country whose currency has failed to keep pace with the dollar's rise. Testimony presented to the Commission in 1985 indicated that the value of the dollar had increased by 150 percent since 1979 in countries where corn was sold; and by 60 percent in countries where wheat and soybeans were sold. The high value of the dollar had turned traditional markets for U.S. commodities and products increasingly towards our competition.

U.S. taxpayers bear the burden of the dollar's rise in two ways. A rising dollar shifts U.S. grain away from export markets and into farm program stocks. A 1983 report published by USDA estimates that an additional $2 billion worth of grain moved into farm program stocks as a direct result of the real appreciation of the U.S. dollar between 1981 and 1983, an amount equivalent to one-sixth of the total cost of all farm programs in Fiscal Year 1983. Acreage adjustment programs are the traditional resort of government in times of surplus production. Thus, U.S. taxpayers, in addition to bearing the burden of government stocks, also bear costs in relation to acreage adjustment. It is difficult to quantify the total impact of the dollar's rise on farm program costs, but, as the above evidence suggests, it is considerable.

Several important factors contribute to the dollar's strength: (1) tight monetary policy to control inflation, with concomitant high

U.S. rates of interest; (2) strong recent U.S. industrial economic performance in relation to other industrialized nations; (3) fluid international monetary conditions, which have resulted in increased foreign investment in dollars; and (4) the "safe haven" investment climate of the United States for foreigners with liquid assets. The Commission acknowledges that the tight monetary policy of the U.S. government has contributed to a fall in the rate of inflation and that the high-valued dollar has benefited consumers of imported goods. However, the damage to the economy of a sustained appreciation of the dollar is likely to overshadow any benefits. These losses cannot continue to be borne. Policy makers need to take greater heed of the damage to U.S. agriculture wrought by policy that results in a continued high-valued dollar.

Further information relating to the impact of the dollar value on agricultural exports is attached.

THE MACROECONOMICS OF THE DOLLAR AND AGRICULTURAL COMPETITIVENESS

The National Commission on
Agricultural Trade and Export Policy

August 8, 1985

In a little over ten years of exposure to the forces of international trade and finance, U.S. agriculture has seen the best and worst of times. For several years our farmers found their fortunes riding on a wave of prosperity that had much to do with an undervalued dollar, inflation, and negligible real interest rates. But even as exports and incomes attained record levels in 1979-81, a new cycle had begun. The complete turnaround in the farmers' outlook has been accomplished by a steeply rising dollar, disinflation, and high real interest rates. In the shifting tide of circumstances, farmers and farm policymakers have begun to understand the importance of macroeconomics. The first two sections of this essay offer an anlysis of exchange rate dynamics during the 1980s in the context of major macroeconomic developments throughout the world. The third considers choices for macroeconomic policy in the future and implications for the competitiveness of U.S. agriculture in world trade.

Most estimates of the appreciation of the dollar compare its current value with its value in the third quarter of 1980. It was then that the dollar began what proved to be a nearly monotonic rise against all other major currencies through the first quarter of 1985. The International Monetary Fund's (IMF) nominal effective exchange rate (an average of the dollar's value in terms of yen, deutsche mark, sterling, French franc, and lira) rose about 60 percent over this period. This overstates the deviation from a longer term trend, however, for the dollar started its climb from just about its lowest level in the postwar period. If we compare the terminal value of January 1985 with an average for 1974-83, the progress is still an impressive 43 percent.

I. CAUSES OF THE APPRECIATION OF THE DOLLAR

Measurements of the appreciation of the dollar differ. When estimates are used to make statistical inferences about relationships between the exchange rate and other economic variables, differences of definition matter. For our purposes, however, the numbers serve only to illustrate. There is no doubt that over the last four and one-half years the cost of dollars for the rest of the world has dramatically increased. Concerning the causes for this phenomenon substantial disagreement persists. The Commission believes they are primarily structural. We do not feel that the appreciation of the dollar is to any significant degree a speculative bubble that defies explanation. Nor is it the expression of a complex of factors that cannot be reduced to simple macroeconomic principles.

National income accounts are constructed according to a few concise arithmetic relationships describing the sources and disposition of a country's output and income. One very useful form, which is always identically true, is the equation of net foreign investment as the excess of domestic private and public savings over domestic investment.

$$F = S^d + (T - G) - I^d = S - I^d.$$

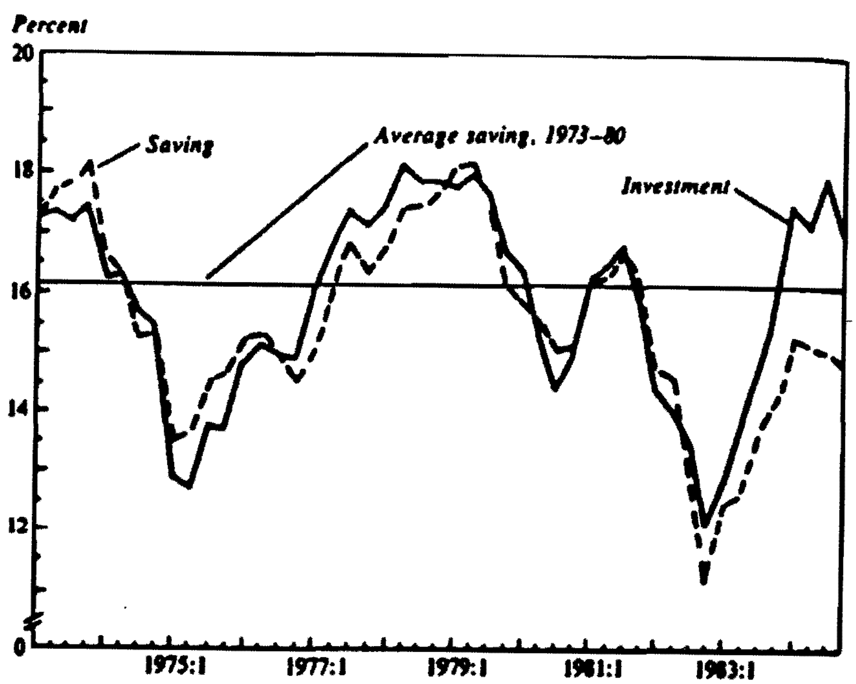
F is the capital outflow or current account surplus, S^d is gross private savings, T taxes, G general government spending, and I^d is gross private domestic investment. Whether a country is a net lender to, or borrower from, the rest of the world depends simply on the balance between aggregate national saving and domestic investment. Within this framework it can be shown that the United States has become to an increasing extent a net borrower, and that the private capital inflows upon which we depend have elevated the exchange value of the dollar. Appreciation has, in turn, generated a deficit on the U.S. current account (merchandise trade plus investment income flows) large enough approximately to offset the capital account surplus, as is required for a balance of payments.

Figure 1 follows the trends in U.S. gross national saving and gross private domestic investment from 1973 through 1984.

Evidently saving and investment tend to move in parallel through the business cycle, declining together in recessions and rising together in booms. From 1973 to 1980, on the average, saving and investment were equal. Thus, the current account was in balance and there was no net accumulation of foreign claims on U.S. residents. But since the latter part of 1982 there has been a marked divergence of saving and investment rates. Saving had fallen a good deal more by the trough of the last recession, and while investment regained a level that is normal for a recovery, saving did not. The United States has been drawing on excess saving in the rest of the world to fill the deficiency.

FIGURE 1

Saving and Investment as Percentage of GNP, 1973:1-1984:4*



*Gross national saving and gross private domestic investment.

Source: Jeffrey Frankel, "The Dazzling Dollar," Brookings Papers on Economic Activity (1:1985), p.204.

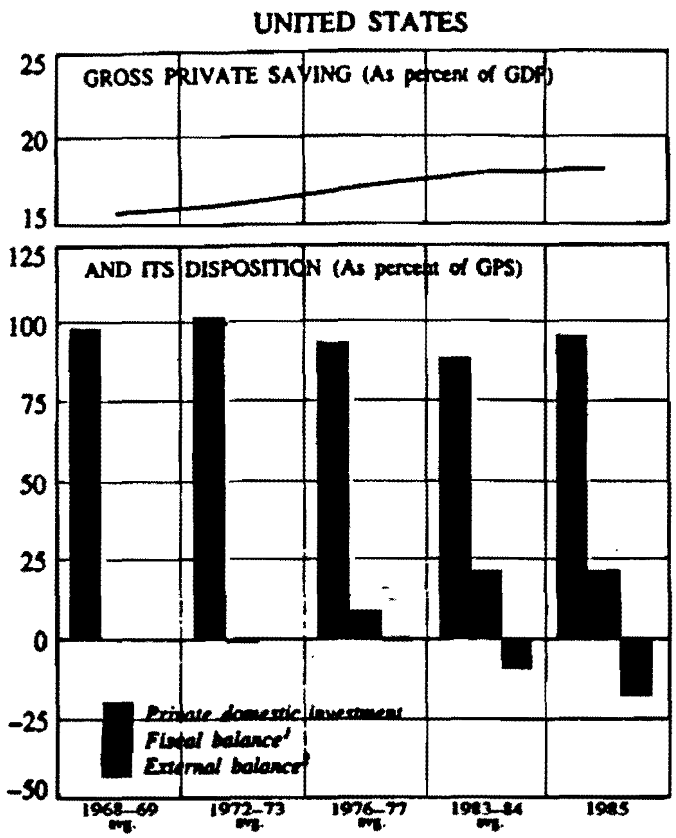
As we earlier defined it, national saving is the sum of private and public thrift. Gross private savings as a percentage of gross domestic product (GDP) is lower in the United States than in any other major industrial country. In Japan the private sector saves 27 percent of GDP, Germany, Italy, France, and the United Kingdom along with Canada save 20-25 percent, while in the United States the proportion has been only 17 percent during the recent recovery. But this does not explain the current shortfall in the national saving rate, for U.S. gross private saving is higher in the current recovery than in previous recoveries and investment is actually somewhat below normal. The reason behind the unusual external financing of this recovery is dis-saving by the total public sector at the unprecedented rate of between 3 1/2 and 4 percent of GNP from 1982 to 1984. If we subtract state and local government surpluses from these figures, we are left with the federal deficit of 5.8 percent in 1983 and 5.0 percent in 1984.

When the government spends more than it earns through taxation, its indebtedness has to be absorbed either by the Federal Reserve or by the private sector at home and abroad. The current deficits are being financed by issue of Treasury bonds, which compete with business for available funds in financial markets. Figure 2 shows the disposition of gross private saving between private and public sector demand for credit at comparable stages of the business cycle over the past 15 years. The share going to business has remained very high; in the last two years private domestic investment has absorbed 89 percent of private savings, a higher share than in any other major industrial country. Partly this reflects the comparatively low saving rate of the U.S. But also, it implies that as fiscal deficits have grown sharply we have possessed a unique ability to borrow savings from abroad to augment the limited wealth we accumulate at home. The 1983 federal deficit amounted to fully 35 percent of private savings, and added 42 percent to domestic credit demand. Since state and local governments were running surpluses at the same time, the impact of the total government sector was mitigated to some extent. Nevertheless, in the absence of substantial crowding out of business investment, fiscal deficits have required a massive capital inflow.

FIGURE 2

Gross Private Saving and Its Disposition

Selected Periods



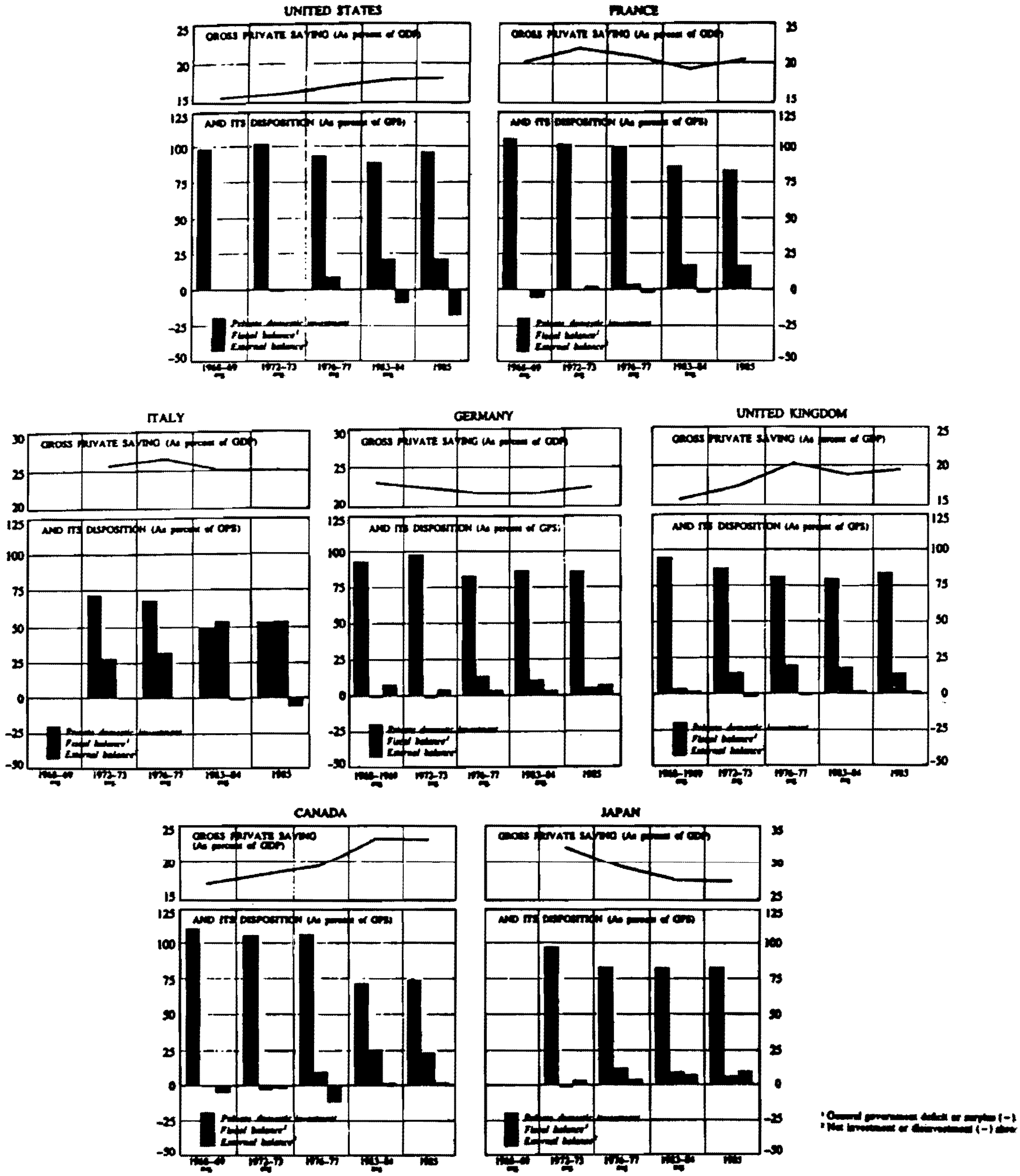
[1]General government deficit or surplus (-).

[2]Net investment or disinvestment (-) abroad.

Source: International Monetary Fund, World Economic Outlook, April 1985, p.104.

FIGURE 4

Gross Private Saving and its Disposition, Selected Periods



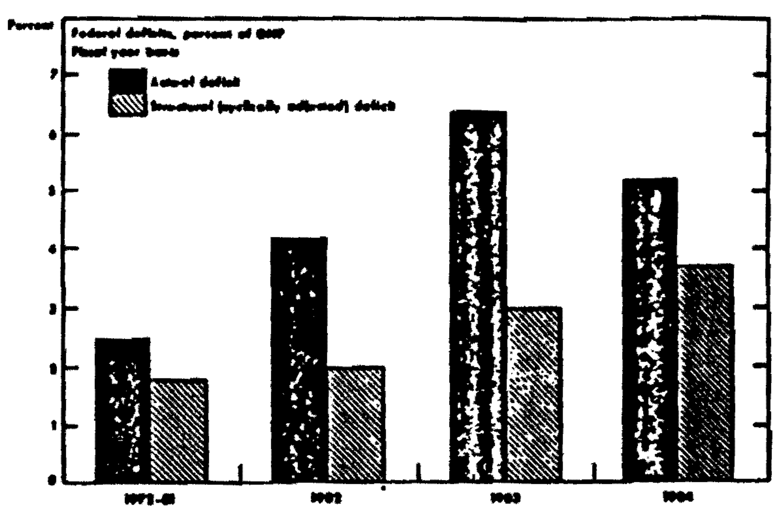
Source: International Monetary Fund, World Economic Outlook, April 1985, pp.104-05.

The inflow supplemented private savings by 6 percent in 1983 and 14 percent in 1984. As projected by the IMF, the external deficit will grow to 18 percent of private savings this year. In the previous recoveries of 1968-69, 1972-73, and 1976-77 as high or higher shares of private savings could be absorbed by business investment without significant borrowing from abroad because the government budget was either in surplus or close to balance.

The growth of the federal budget deficit has been sudden and spectacular (Figure 3). Of the cumulative increase in the deficit since 1970, over 70 percent has occurred in roughly 20 quarters since the inception of the current administration. Several reasons can be identified. One is the decline in inflation. Rapid price increases during the term of the Carter Administration swelled windfall profit tax revenues and engendered tax bracket creep, which together account for much of the fall in the deficit-to-GNP ratio observable in those years. Disinflation, lower oil prices, and indexation starting in 1985 have stemmed the automatic growth of tax receipts. But the principal sources of a 2 1/2 percentage point rise in the deficit-to-GNP ratio have been personal and business tax cuts in 1981, as well as the effect of high real interest rates on debt service.

FIGURE 3

Deficits in the United States



Source: Federal Reserve Bank of New York, Annual Report, 1984, p.15.

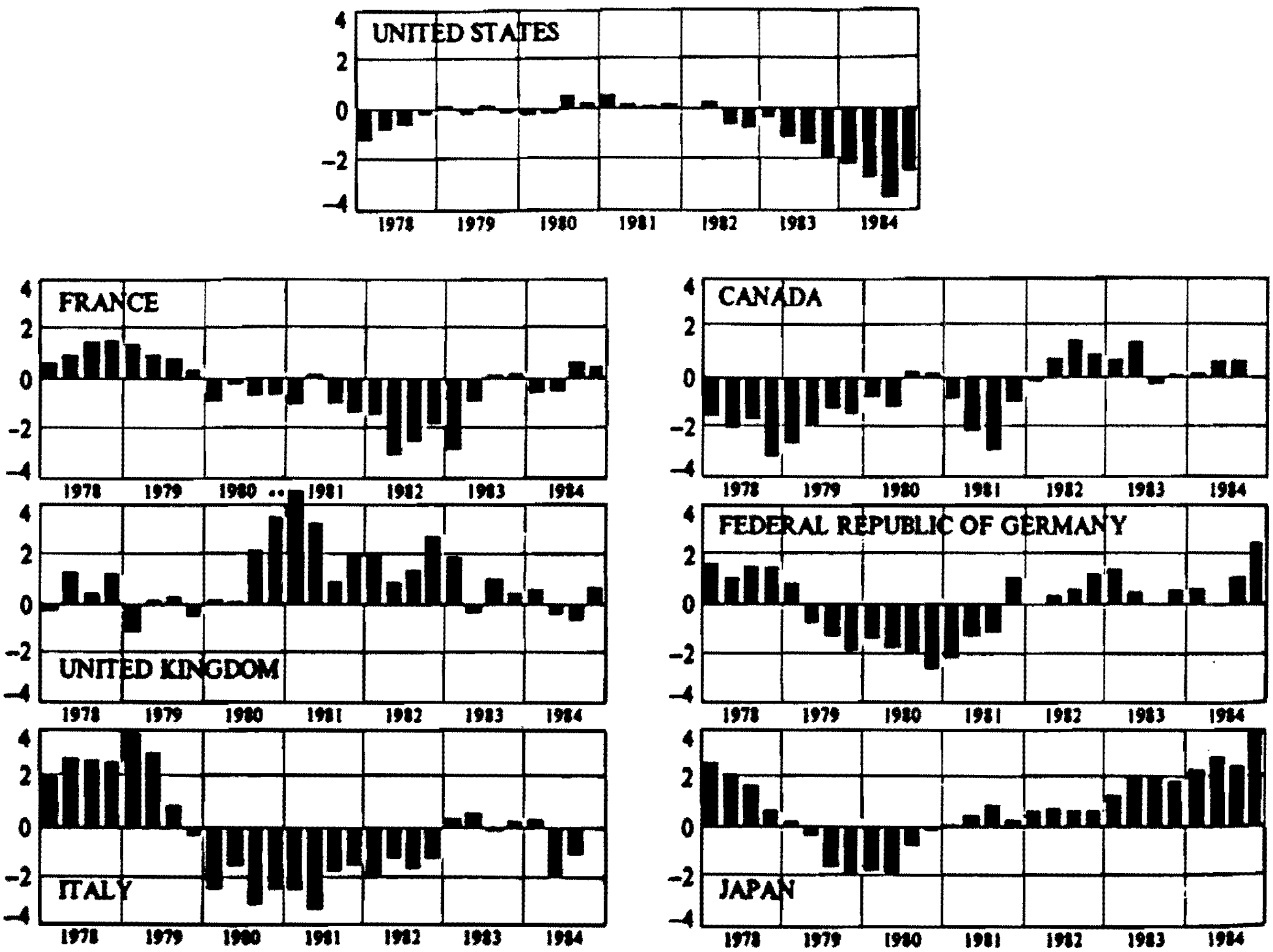
In order to understand the effective appreciation of the dollar it is important to recognize that while the need of the United States for external financing of its budget deficit has greatly increased, the other major industrial countries have been improving their external balances. In most industrial countries government purchases of goods and services have been curtailed in the 1980s, and have fallen as a percentage of GNP. Germany, Japan and the United Kingdom began fiscal retrenchment in the late 1970s and government deficits have absorbed a smaller share of private savings during the 1980s (Figure 4). Accordingly, these three have enjoyed growing external surpluses. The achievement of net capital outflows has been particularly impressive in the United Kingdom, where the release of financial resources by the public sector has been accompanied by strong revival of business fixed investment in response to tax incentives similar to those enacted in the United States.

Other major countries began fiscal retrenchment later and deficits have grown during the present recovery. How have their economies accommodated sizable increases in central government claims on private sector resources without the need for commensurate capital inflows? Canada managed to increase the rate of private saving from a level close to that in the U.S. to the much higher level characteristic of European economies. Consequently, the sharp drop in the <u>share</u> of private investment has not required a proportionate reduction in the <u>level</u> of investment. Canada has become a capital exporter, with savings more than sufficient to cover domestic demand. Early in the 1980s, France developed a large external deficit, but her current account is expected to return to balance this year. Government borrowing has crowded out a corresponding amount of private business investment. Italy ran a small current account surplus in 1983, but swung into deficit the next year. With the government doubling its share of domestic savings, a much heavier foreign debt would have been incurred had not domestic investment contracted.

In general, recent years have witnessed a major shift in the flow of capital among industrial countries (Figure 5). Savings released from Japan and Europe, where either private or public credit demand has been restrained, have been tapped by the United States, where the demand for credit in both sectors is strong.

FIGURE 5

Balances on Current Account, Including Official Transfers, 1978-84
(In Percent of GNP)



Source: International Monetary Fund, World Economic Outlook, April 1985, p.40.

A capital inflow *per se* does not require a change in the exchange rate. It might be associated with a constant exchange rate; but either depreciation or appreciation is also possible. The rate between other currencies and the dollar acts as a price mechanism to balance supply and demand for funds used for capital and current transactions. The capital surplus and the current deficit that must accompany it suggest opposing movements in the exchange rate. The critical theoretical insight is that the stability of the monetary system depends on the tendency for the exchange rate to induce a flow of payments that offsets a disturbance in the balance on either account. Assuming that the dollar has been behaving properly over the last 4 years, on which side of the balance is the proponderant disturbance and on which side the response?

The expanding U.S. merchandise trade deficit reflects the fact that the U.S. is currently spending more than it produces, the difference being borrowed from abroad. In 1983 domestic demand grew 1.2 percentage points faster than output and in 1984 1.9 points. In recent months the gap has widened as GNP growth has fallen to an annual rate of 1 percent without any comparable slackening of demand. The outflow of payments through the trade deficit would tend to put downward pressure on the dollar; depreciation would induce the world to absorb the additional U.S. indebtedness. But clearly the dollar has not fallen. So the current account deficit must be the offsetting adjustment; the consequence rather than the cause of the dollar's spectacular ascent.

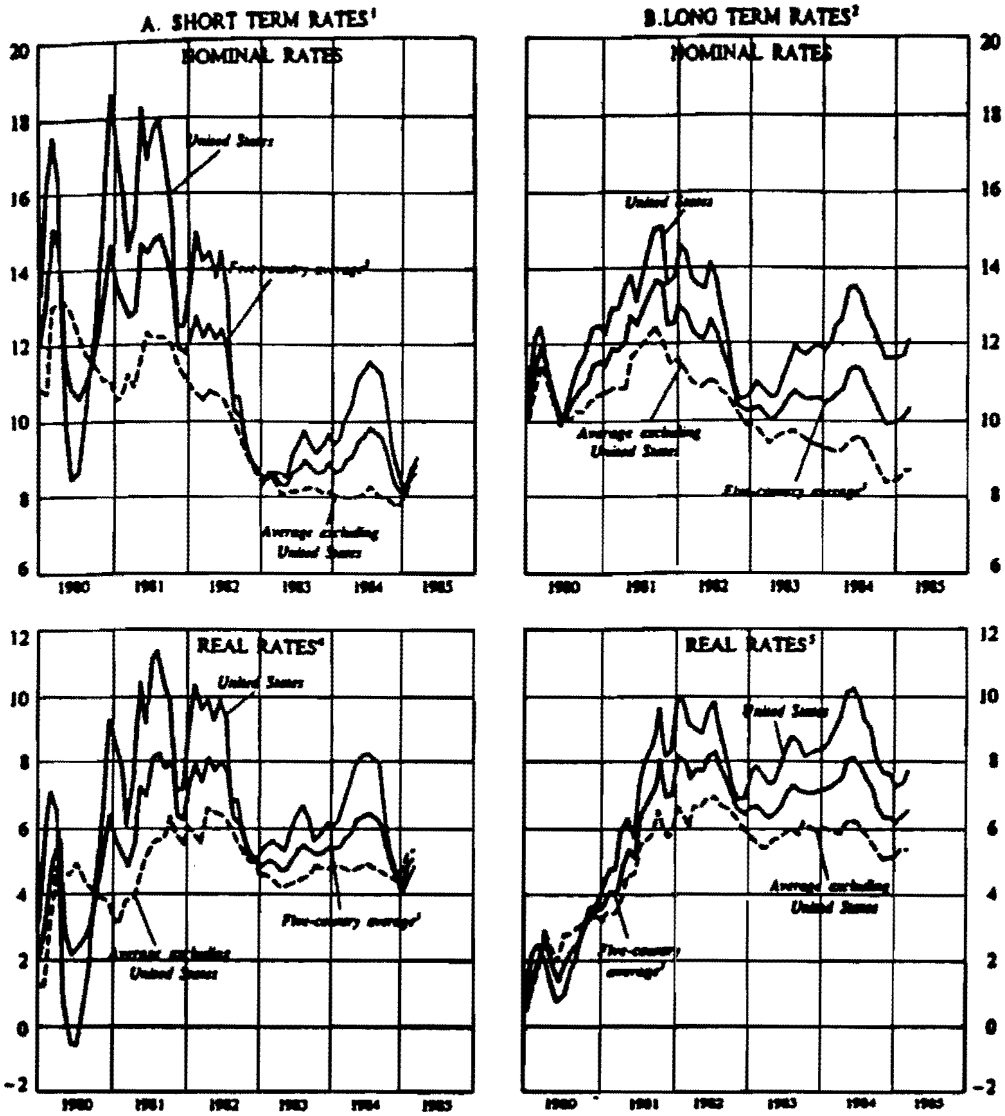
In contrast, the dollar would seem to be rising under pressure of the capital inflow. This deduction requires qualification. Not all transactions recorded in the U.S. capital accounts directly influence the value of the dollar. A substantial proportion of the net capital inflow to the U.S. in the last two years ($27 billion and $20 billion, respectively) has taken the form of banking flows between the Eurodollar market and U.S. money markets. Since the funds are denominated in dollars at both origin and destination, the transactions are not mediated by a foreign exchange market. A link to the foreign exchange market--albeit indirect--is, however,

present. The turnaround of bank flows after 1982 was associated with apprehension about further lending to LDC's and the relative strength of credit demand in the U.S. So this should correlate closely with a decline in the availability of dollars for conversion into foreign currency credit. It should also be noted that large quantities of dollars earned abroad through the U.S. current account deficit have been retained as short-term deposits in Eurodollar banks, and thus have not contributed to the supply of dollars on foreign exchange markets. This curious fact helps to explain why the current account deficit does not seem to inhibit the dollar's appreciation. The evidence from both sides of the U.S. balance of payments implies that the willingness of the international community to continue accumulating claims on the U.S. stems from positive incentives sufficient to compensate for the disincentive of dollar appreciation.

The international balance of saving and investment has brought about capital flows to the United States by raising the expected return on U.S. assets relative to foreign assets. It is not surprising that efficient markets will channel resources to uses which yield the highest return, given an appropriate discount for risk. Figure 6 depicts movements of interest rates on similar financial instruments for the major industrial countries. Short-term rates apply to money market deposits of 60-90 day maturity. For the U.S. these are certificates of deposit, for Canada 3-month treasury bills, for European countries 3-month interbank rates, and for Japan the discount rate on 2-month private bills. Since a major share of U.S. net borrowing in 1983-84 has taken the form of banking flows, these rates are probably representative of the relevant incentives. Other instruments might have been selected for comparison (for instance, the Treasury bill rate in U.S.), but the trend would hardly be altered. To take account of inflationary expectations, nominal rates have been discounted by a weighted average of private fiscal demand deflators for the respective countries over the current and following two quarters. Long-term rates apply to government bonds of maturities ranging from 7 to 20 years and are deflated in a similar manner.

FIGURE 6

Interest Rates, 1980-85



[1] Monthly averages of daily rates on money market instruments of about 90 days' maturity.

[2] Monthly averages of daily or weekly yields on government bonds, with maturities ranging from 7 years for Japan to 20 years for the United States and the United Kingdom.

[3] The United States, Japan, France, the Federal Republic of Germany, and the United Kingdom.

[4] Short-term interest rates deflated by a weighted average of the increase in the private final domestic demand deflator in the current and the following two quarters; for the most recent periods, staff projections of the deflator are used.

[5] Long-term interest rates deflated as indicated in footnote 4.

Source: International Monetary Fund, World Economic Outlook, April 1985, p.32.

The relative tightening of U.S. credit conditions appeared as early as 1981. While the premium on U.S. financial assets tended to diminish during the recession, it has reemerged again clearly in real terms during the recovery. As the yield differential shifted strongly in favor of the U.S., bankflows turned around abruptly. From an average $35 to $45 billion net outflow during 1980-82 the balance of bank funds switched to net inflows of upwards of $20 billion. Foreign purchases of U.S. Treasury securities rose from $7 to $22 billion, and U.S. corporations borrowed abroad heavily through their Netherlands Antilles affiliates.

We now have most of the pieces of the puzzle, and they can be fitted together. To summarize, the effective appreciation of the dollar began in the third quarter of 1980 simultaneously with the appearance of sizable nominal and real interest rate advantages in the U.S. The dollar has been able to maintain its relative attractiveness for international investors through the beginning of 1985 because dollar assets have retained an edge over foreign assets of comparable risk. The differential results from an unusually large excess demand for funds in the U.S., owing to the rapid recovery of investment to proportions of saving and income that are just short of normal for a cyclical upswing, in conjunction with budget deficits that are extraordinary for any stage of the business cycle. Clearly we must conclude that the dollar owes much of its appreciation to current and projected levels of the budget deficit.

That fiscal imbalance has strengthened the currency is paradoxical, because, historically, disorder in public finances has tended to undermine confidence in a currency and precipitated large speculative outflows of capital. The many recurrences of this pattern demonstrate that a country may not be able to finance its desired or *ex ante* level of spending at a given mix of interest rates and exchange rate. If international investors anticipate that the deficit will lead to inflation, not only might they refuse to absorb additional debt, but they also might sell off the assets they already hold in that currency. It would require pronounced unfavorable movements in either or both interest rates (up) and exchange rate (down) to stabilize world financial markets.

The flight from the dollar that occurred in 1977-78 provides illustration. In the midst of a recovery the U.S. was running an unusual, but by recent standards small, fiscal deficit. As a result, a significant external deficit emerged, which generated uneasiness in financial markets and induced some investors to switch out of dollar assets into deutsche mark, Swiss franc, and yen. U.S. interest rates rose and the Federal Reserve responded by expanding money. The expectation of inflation set off a wholesale flight from the dollar and depreciation that continued through 1979. At the end of the episode, U.S. balance of payments accounts showed a larger current account deficit. The ex post net capital inflow that financed it represented official reserve transactions--central bank interventions--covering both the current account deficit and substantial net private capital outflows.

The lesson of this digression is that when a country saves less than it invests the difference must be financed, but the private sector will provide the funds only if the prospects for return are sufficiently attractive. To this extent a variety of conditions not revealed by the balance of saving and investment have contributed to the attractiveness of dollar assets. We have emphasized relative interest rates, which in major economies tended to adjust to the foreign excess supply/U.S. excess demand for funds. Chief among the others has been a low and stable rate of inflation in the U.S. (under 4 percent for three years running) brought about by sound monetary policy and by the appreciation of the dollar itself.

II. AN APPRAISAL OF COUNTERARGUMENTS

The argument we have presented has been attacked, notably by officials of the State Department, Treasury Department, and economists at the Federal Reserve Bank of St. Louis. In this section we review and discuss the principal lines of contention.

The rebuttal denies the two pivotal deductions upon which the foregoing analysis turns, namely, the relationship between the capital inflow and interest rates and the relationship between

interest rates and fiscal policy. On the first point, the reasoning goes as follows:

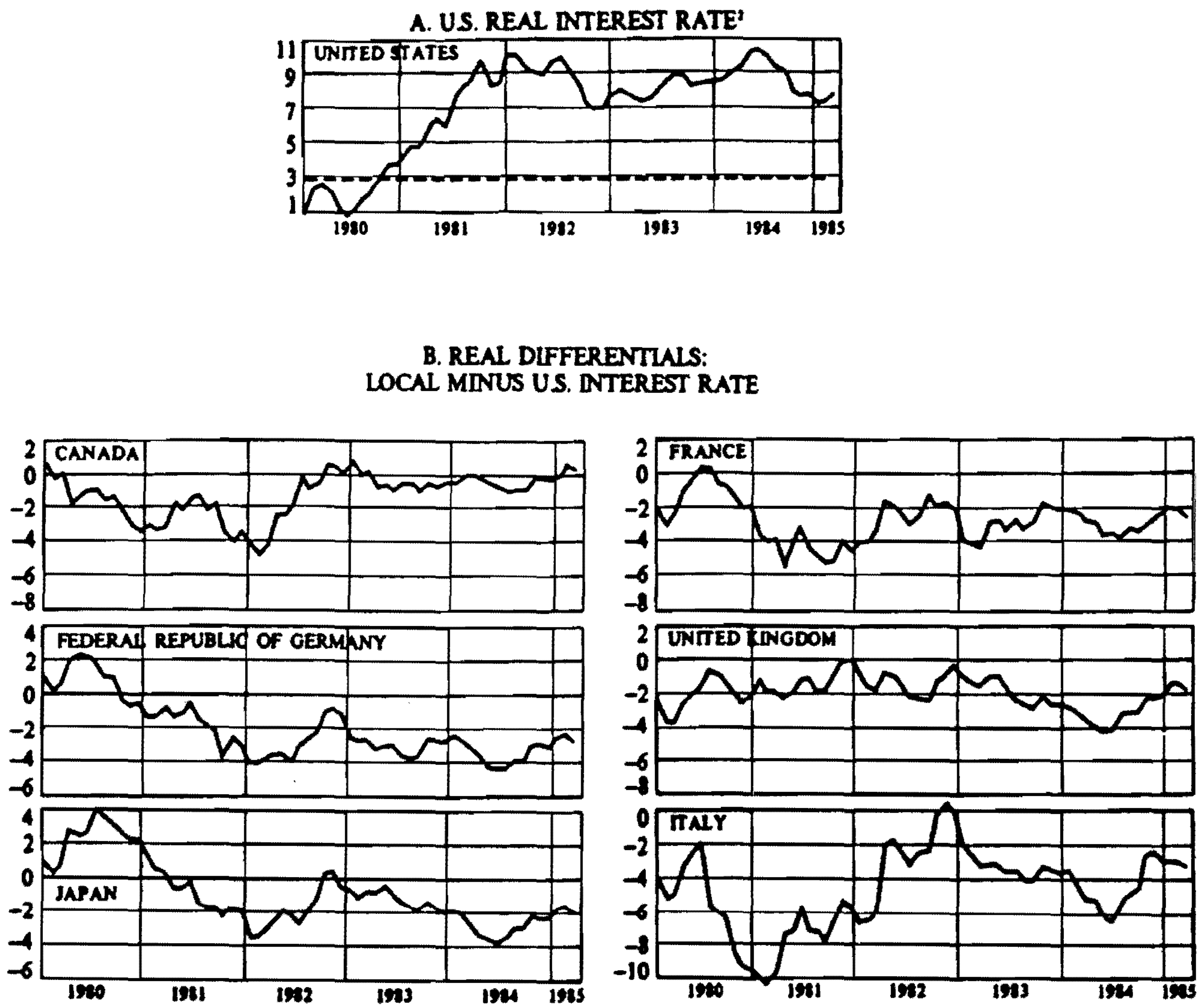
1. An interest rate premium on dollar assets cannot account for the inflow that raises the dollar, because as the dollar has appreciated over the last four years, the interest rate differential has in some cases narrowed or been reversed. Movement into the dollar reflects instead such motives as confidence in U.S. political stability, confidence in the strength of the U.S. economy, and higher after-tax real rates of return on U.S. equity investments.

The observation here about interest rates is seriously flawed in a number of respects. First of all, there seems to be an error of measurement. For instance, in papers by Treasury Secretary Mulford (March 1985) and by Deputy Undersecretary of State Morris (May 1985) one reads that from 1980 to 1984 the "interest rate differential favoring dollar assets over DM-assets" moved 6 percentage points against the dollar while the dollar rose 60 percent. To which sort of assets does the remark refer? And is the differential measured in nominal or real terms? When we look at the evidence of nominal rates on common money market (3-month) instruments, we find that at the end of 1980 the U.S. rate stood at 17-18 percent, or 7-8 percentage points above the comparable German rate. By the end of 1984, the U.S. rate was down to 8 percent and the German to 6 or 7 percent. It is true, therefore, that the nominal differential on short-term assets fell 6 points. But it is unlikely that international investors base their decisions on nominal differentials. Admittedly, real differentials can be calculated with a variety of deflators. But when projected inflation rates are taken into account in some fashion, a very different picture emerges. At the outset of the period U.S. inflation was running at around 12 percent and German inflation at 5 percent. By the close, both were well under 5 percent, separated by no more than a percentage point and a half. Adjusted for inflation expectations in the manner described earlier, the interest spread widens, from approximate parity to a 3 point U.S. advantage. Real rates on long-term government bonds move even more decisively in the U.S. favor. From the middle of 1980 to the middle of 1984 U.S. bonds

chalked up a gain of 6 percentage points against German bonds (Figure 7).

FIGURE 7

Average Real Long-term Interest Rates,[1] January 1980 - March 1985
(In percent per annum)



[1]Monthly averages of daily or weekly yields on government bonds deflated by an estimate of the rate of inflation based on changes in the deflator of private final domestic demand.

[2]The dashed line represents the average value of the U.S. real long-term interest rate during the period 1974 to 1983.

Source: International Monetary Fund, World Economic Outlook, April 1985, p.36.

Both the Treasury Department paper and State Department paper also cite evidence of a collapse in the U.S.-French interest rate differential from 7 points to -2 points. But once again, though they don't tell us, they are referring to nominal rates. In real terms the spread has narrowed somewhat, but the U.S. retains the advantage.

The more important errors in the rebuttal are interpretive. Trends of interest rates and differentials depicted in Figures 6 and 7 display a characteristic undulatory motion. This is associated with the cyclical nature of economic activity. When interest rates in the major economies diverge considerably, the reason may be that business cycles are out of synchrony, or that monetary authorities choose not to act in coordination, or that some other unforeseen disturbance is present. Financial markets in these economies are so integrated, however, that disturbances from trend tend to be eliminated by the arbitrage of rational investors. So any interpretation of comparative interest rate movements should start with a distinction between exogenous and endogenous movements. When the Fed embarks on open market operations to restrain the growth of money or raises the discount rate in order to persuade commercial banks to hold more free reserves, the U.S. short-term rates rise relative to European rates. But now portfolios adjust and capital flows into higher yielding U.S. CD's and T-bills. The differential will tend to diminish as excess demand for U.S. assets raises their price and lowers their yield, while at the same time, an excess supply of foreign assets depresses their price and raises their yield. It is not at all surprising, then, to find evidence in the data of marked differentials succeeded by intervals of convergence. In the meantime, the exchange rate will follow exogenous disturbances by registering the increased demand for higher yielding assets--in our example U.S. assets. Only when the endogenous process of adjustment has eliminated the marginal incentive for further financial flows will the appreciation of the dollar cease. Thus, far from being irreconcilable, a tendency for some convergence in yields is as much a necessary concomitant of exchange rate change as an initial divergence is the cause. If we did <u>not</u> observe this pattern in

the data, we would have grave cause for concern. By implication, either interest differentials would not ration demand in foreign exchange markets, or balance of payments adjustments would be fundamentally unstable.

Since summer 1984 the trends in yields and the dollar have been more difficult to interpret. The sustained rise in the dollar while interest spreads appear to be falling has perplexed many observers. From July 1984 to May 1985 nominal 3-month money market rates fell 4 1/2 points in the U.S. and barely 1/2 point for the average of U.K., Germany, Japan, and France. In real terms there has been convergence too, while the dollar effective exchange rate rose 10 percent. We believe that the fall in U.S. rates in the second half of 1984 can be explained largely by the heights to which the Fed allowed them to rise (relative to foreign rates) in the first half of the year when there were fears that the economy might overheat. The dollar rose because the risk and return on dollar assets looked especially good. But note that the adjustment had pretty well run its course by 1985. Since last February-March, the dollar has fallen by 13 percent (as of 1 August) in response, we believe, to pessimistic forecasts of output and investment growth and to the Fed's reduction of the discount rate and upward revision of money growth targets.

In long-term rates, however, no measurable convergence has occurred. One reason may be that government bonds of widely varying maturities are not ready substitutes for one another. Without consensus among investors as to the comparability of differential risks and returns in capital markets, the pressure on U.S. interest rates has evoked less stabilizing speculation than in money markets. There is a more straightforward and satisfying explanation. In view of the lesser liquidity of these assets and hence a greater risk, the persistence of a premium in U.S. rates implies the expectation of future depreciations. In theory we would expect that as the dollar diverges farther from its expected long-run value, rational investors would require a higher yield on dollar assets sufficient to cover the anticipated capital loss. In short, when allowance is made for expectations and autonomous

disturbances are distinguished from equilibrium adjustment, the putative inconsistencies in the link between yields and the dollar for which we argue generally do not stand up under inspection.

How much importance should we attach to the alternative explanations that critics advance for the dollar's strength?

(i) Capital has been driven into the dollar by fears of political instability, government controls, and expropriation abroad.

While the safe haven hypothesis has some plausibility, it cannot be verified with available statistics. Apprehensive investors probably find the same security in Eurodollar assets as in the U.S. During the recent debt crisis, the Commerce Department and U.S. bank balance sheets recorded a sizable net inflow from Europe. What looks like a shift of funds from Switzerland to New York might have been Latin American money seeking safe haven.

(ii) The strengthening of the dollar reflects confidence in the U.S. economy.

First, this assertion has to be translated into economically meaningful terms. The confidence motive might be identified with higher expected yield on investments (about which we have more to add below), but more likely it corresponds to comparatively low risk. Investors choose a portfolio by weighing expected returns against variance of returns on an array of financial assets. Low risk is an advantage for sure, but for any given degree of risk, marginal differences in relative return still matter. If interest differentials were higher or lower with no change in the perception of risk, U.S. assets would have appeared more or less attractive and drawn some investors into transactions that would not otherwise have occurred. The magnitude of the response, and hence the impact on the dollar, depends only on the interest elasticity of investment decisions. Unless risk perceptions have been changing significantly over the past four years, confidence by itself explains very little.

(iii) The strengthening of the dollar reflects the higher after-tax real rate of return in the U.S. compared with other countries.

The argument goes on to attribute this rise in the productivity of U.S. investments to such legislation as the Economic Recovery Tax Act of 1981 and the 1984 abolition of the interest withholding tax on foreign investment in the U.S. This is the most sophisticated of the three claims, but it too has problems.

In principle, an increase in the productivity of real capital differs from a rise in interest rates on financial capital. In practice, the difference would prove difficult to verify. Expecting a higher return after tax on equity, firms would borrow more in order to increase capital spending. This would force up yields on their bonds. Owing to the ease of substitution among assets for lenders, the whole interest rate structure of the U.S. financial market would tend to rise and a greater demand for all U.S. assets relative to foreign assets would result. So this explanation for the strength of the dollar does not discount the role of interest rates; it may, however, shed light on the interest rate trend.

Of the recent tax changes in the U.S., the abolition of interest rate withholding in July 1984 has probably contributed least to capital flows. Of course it is reasonable to suppose that abolition would have enhanced the allure of the dollar for foreigners. But three facts suggest otherwise. First, foreign investors will now be liable for taxation of interest by their own governments. Second, U.S. corporations have already for some time made use of our tax treaty with the Netherlands Antilles to issue tax exempt dollar securities through affiliates operating under that jurisdiction. Third, France and Germany have responded to U.S. action by eliminating withholding taxes on foreign investment and Japan announced that she too would follow suit.

In regard to the domestic tax reforms, the argument boils down to this: tax cuts, investment credits, and accelerated depreciation phased in since enactment of the new code in 1981 generated an investment boom, which the dramatic shift in capital flows has financed. The truth of this argument depends on the scale of investment in U.S. equity capital both by foreigners and domestic residents. The evidence of foreign direct investment

activity furnishes weak support. The figures reported by the Department of Commerce over the last ten years are as follows:

YEAR	FOREIGN DIRECT INVESTMENT IN U.S. ($ billion)
1975	2.6
1976	4.3
1977	3.7
1978	7.9
1979	11.9
1980	16.9
1981	23.1
1982	14.9
1983	11.3
1984	21.2

While amounts have considerably increased in recent years, one could have projected them on the basis of the acceleration that occurred in the late 1970s, long before the Reagan tax cuts. The most impressive levels were attained in 1981 and 1984. Both turn out to have been heavily influenced by a few large-scale mergers, such as the takeover of U.S. Shell by its parent Royal Dutch Shell in the latter year. In the two intervening years, foreign direct investment was no higher than it had been before the tax changes. Much of the foreign direct investment increase we observe after 1977 has been a corollary to the penetration of U.S. markets by foreign multinationals. Undoubtedly some has been politically induced, by erection or threat of trade barriers.

On the other side of the coin, the fall in overseas investment by Americans must have something to do with the strong investment demand at home during the recovery. In turn, the growth of private domestic investment must have been encouraged by favorable provisions of the tax act. The surge in corporate cash flow, profit margins, and stock prices since the beginning of 1983 certainly suggests a rise in the rate of return, and some careful calculations confirm this. If business investment did not promise a return adequate to cover the higher cost of borrowed funds (the real interest rate), then the budget deficit would have crowded out more investment and less net capital inflow would have

occurred. Without the tax incentives, business spending might have been subdued in this recovery, and the recovery itself fairly unimpressive. So, at best, the effect of the tax provisions has been to stimulate investment _just_ _enough_ to regain normal levels in spite of historically high real interest rates. While the growth _rate_ of investment, 1982-84, has been about double the rate in previous postwar recoveries, if we refer back to Figure 1 we see that the _level_ of investment (as a percentage of GNP) is consistent with levels attained in previous recoveries of 1972-74 and 1976-79. Indeed at its peak in the present recovery, investment did not quite reach the peak of 1978.

The essential failure of argument (iii)--and its specious appeal--is that the reasoning seeks no guidance from quantification. Statistics are instructive because, even if they cannot measure the importance of particular factors precisely, they can place upper or lower bounds on our speculations. Thus, if a rise in the productivity of capital in the U.S. has affected capital flows by fostering an investment boom here, it can explain only as much of the capital flows as the investment boom can. From the perspective of historical trends in Figure 1, the boom simply cannot account for the _net_ inflow.

The only satisfactory explanation is one that considers the recent behavior of both investment and saving. As the tax package was originally conceived, economic activity and business profits would expand enough to create the savings necessary to finance the new business investment; the external account and foreign exchange market would remain balanced. Between 1981 and 1984 gross private saving and gross private domestic investment both rose an average 1 1/4 percentage points of GNP. As a result, private investment actually claimed a somewhat smaller share of private savings than in previous recoveries. The external imbalance that did result was not due to the exuberance of investment, but to the budget imbalance. Higher business profits and personal income did not make up for taxes foregone.

Now we turn to the second issue of controversy in our analysis of the exchange rate. The objection of the critics runs as follows:

> 2. Current and projected budget deficits have not appreciably affected U.S. interest rates. Empirical investigation shows no significant correlation. Explanation for the high level of U.S. real interest rates can be found in other factors--inflationary expectations, uncertainty, monetary policy, and cyclical factors.

This argument is distressing because, if correct, a large body of conventional macroeconomic theory is invalid. It is not clear that those who advance it are aware of the challenge they pose to well accepted notions. And the evidence they marshal appears to illustrate the dangers of a casual empiricism uninformed by sound theoretical principles.

There are two ways in which a fiscal deficit raises interest rates. The expansionary impact of expenditure on goods and services in excess of revenues increases money demand. If the deficit is incurred in a cyclical downswing when the danger of inflation is low, the monetary authorities are generally willing to accommodate the tightening of financial markets by increasing money supply. No increase in the interest rate need occur as a result of the deficit. Under the direction of Keynesian prescriptions, for many years governments, including that of the U.S., have customarily run fiscal deficits during recessions. Running massive deficits during a cyclical upswing, however, is novel for the United States. In this case fiscal policy frustrates monetary restraint. Accommodation may sacrifice control over prices. In mid 1984 the Federal Reserve chose to control prices, and financial markets rationed the excess demand for money with higher interest rates.

The way in which fiscal deficits are financed can have a more direct effect on interest rates. The U.S. Treasury has been borrowing through issue of securities. In order for the markets to absorb a large volume of new debt the interest rate has to rise. Since a large component of the U.S. deficit has become structural, or insensitive to the business cycle (roughly two-thirds, as estimated by the Federal Reserve Bank of New York), and since the

structural deficit will tend naturally to grow along with interest payments on the outstanding stock of debt, the financial markets can reasonably project sustained pressure on interest rates. It is a truism of speculative markets that reasonable expectations are always self-fulfilling.

The presumption that the effect on market yields is significant depends on the scale of government borrowing. The staff believes that additional demand for funds on the order of 40 percent of ex post gross private investment or 200 percent of ex post net private investment could not be absorbed without an effect on interest rates. It is nonetheless understandable how this correlation could elude statistical inquiry. One difficulty is that interest rates tend to move procyclically, while deficits expand and contract countercyclically. So comparisons of the raw data trends are biased against finding any positive relationship. Studies that have adjusted macroeconomic variables for cyclical developments generally have confirmed the theoretical prediction of a positive significant relationship.

Another difficulty is that with internationally mobile capital, upward pressure on domestic interest rates draws supplies of funds from other countries, which permits slight yield movements to clear the domestic market. The foreign exchange market acts as a safety valve, obviating the displacement of domestic capital formation. Rather than a pronounced rise in interest rates, we see an appreciation of the dollar. The data may be difficult to interpret on cursory inspection, even after adjusting them for inflationary expectations. Yields may rise and then fall or simply fail to fall as much as comparable yields abroad.

Some critics of our analysis would concede to fiscal policy a marginal effect on interest rates. But they insist that other factors have had the determining influence on financial markets in the United States. Let us review them.

(i) Inflationary Expectations.

The claim is that lenders, having sustained enormous losses during the 1970s as a result of inflation, are covering themselves

in case inflation revives. The consumer price index and GNP deflator of the U.S. have increased at about 4 percent per year for three straight years; one would expect inflationary fears to subside. But it is perfectly plausible that they have not and that chary lenders are holding up real interest rates. What is wrong with this explanation, however, is that it applies to all the industrial countries, with the possible exception of Japan, for they too saw low or negative real interest rates in the 1970s. Inflationary expectations do not account for the relatively high interest rates in the United States--and, as we have demonstrated, it is this premium that directs capital flows.

(ii) Inflationary Uncertainty.

A variant of (i), this claim is that the risks associated with unstable prices and nominal yields reduce the total volume of lending and/or warrant payment of a premium to lenders. But uncertainty dampens the incentive to borrow too, and accordingly might dictate a discount on yields. The result is therefore ambiguous. Moreover, uncertainty explains interest rate differentials no better than expected inflation does. On the other hand, if the focus of investors' uneasiness is the prospect that unsustainable budget deficits will be monetized, it would make sense for the behavior of interest rates in the U.S. to differ from that in countries where deficits have been brought under control. But this "alternative" explanation reinforces, rather than detracts from, the importance of fiscal policy.

(iii) Monetary Policy.

The case is frequently made that the conduct of monetary authorities in the United States since 1979 has raised real interest rates here and, indirectly, abroad. Tight monetary policy undoubtedly raised nominal interest rates, but, beyond the first year or so, probably not real rates. When money growth was rapid during the late 1970s, the increase in the price level nullified some of this growth in real terms. By contrast, in the 1980s the restraint of nominal money growth has been offset by the positive effect of disinflation on real money balances. When changes in the

stock of M1 are deflated, a pattern of real money growth emerges that dispels the notion that the Fed has been overly restrictive.

YEAR	ANNUAL REAL CHANGE IN STOCK OF MONEY (M1)
1977	1.9
1978	-0.2
1979	-0.6
1980	-2.5
1981	-3.5
1982	4.3
1983	6.4
1984	1.5

U.S. monetary policy has enhanced the attractiveness of U.S. financial instruments since 1981 more by diminishing the risk than by elevating the real level of the return.

(iv) Temporary and Cyclical Factors.

If the appreciation of the dollar has been brought about in large part by flows of funds between the U.S. and Eurocurrency markets, then the key is to explain how a marked differential in yield arose between them. The claim is that a revival of borrowing and spending by the private sector in the U.S. coincided with unusual liquidity in Euromarkets that stemmed from a sudden fall off in loan renewals to LDC debtors, prolonged recession in Europe, and the accumulation of dollar deposits from foreign export earnings in trade with the U.S. The rise in relative returns to lending in U.S. money markets caused a turnaround in bank flows and other forms of net capital inflow. As long as recovery has proceeded more rapidly in the U.S. than Europe, and LDC's have been adjusting to strict new conditions on further loans, the U.S. has offered the best return on funds. By implication we should expect the disparity in interest rates to disappear when cyclical imbalances are redressed. At this time the dollar will weaken as well.

In every respect but one this argument is valid: it is too restrictive. The cyclical surge of private credit demand did encounter slack in Euromarkets that was partly cyclical, but also stiff competition at home from government borrowing that increased, rather than diminished, with the cycle. It makes no sense to argue

that growth of private capital formation amounting to 1 1/4 percentage points of GNP had a significant effect on interest rates, while the effect of an increase in the federal deficit by twice this amount was marginal.

III. POLICY ISSUES AND IMPLICATIONS

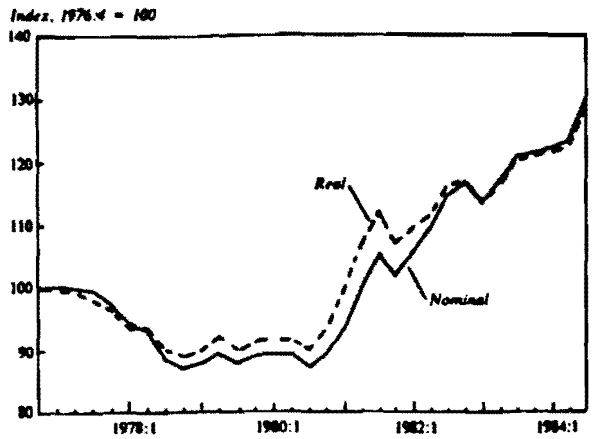
The dollar problem raises a number of distributional issues of far-reaching significance. Through its effects on relative prices, the appreciation of the dollar has influenced the division of labor. As American goods have become more costly at home and abroad from 1981 to 1984 our merchandise trade balance deteriorated by $79 billion, and 23 percent of total export market share has been lost to competitors. Traded goods industries in the U.S. also find their prices falling relative to domestic nontraded goods industries from which they purchase services and with which they compete for factor inputs. Because commodity transactions are conducted almost wholly in dollars while other segments of trade are diversified, appreciation of the dollar has caused food and raw material prices to fall relative to other prices. (See Figures 8 and 9.) One estimate attributes 1/2 the decline in real commodity prices since the last quarter of 1980 to exchange rate developments. On all three accounts the U.S. farm sector's terms of trade have worsened. The ramifications of the dollar on sectoral terms of trade could be expected to alter the allocation of resources and the location of production.

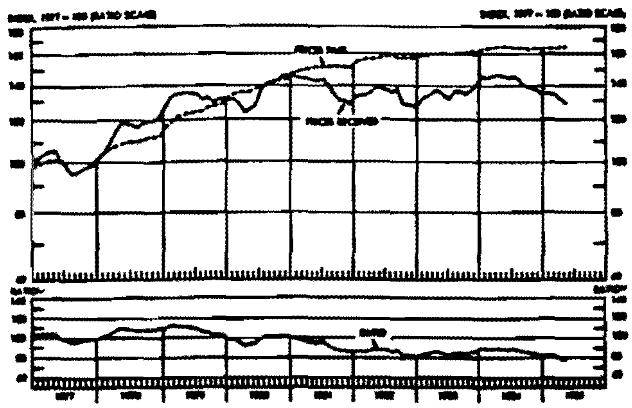
The dollar is also redistributing the world's wealth. The worsening external account of the U.S. represents a net decumulation of foreign assets. At the end of 1982 cumulative net overseas U.S. investment amounted to $169 billion, and had dwindled to $25 billion as 1985 began. As the U.S. piles up net indebtedness at a rate of some $150 billion this year and indefinitely thereafter, U.S. wealth is transferred to our creditors abroad. This has an intertemporal dimension as well. Debt constitutes a choice to support a relatively higher level of spending now at the cost of relatively more thrift in time. By repressing current prices, appreciation has further enhanced today's purchasing power.

FIGURE 8

Prices Received and Paid by Farmers

The Effective Dollar Exchange Rate, 1976:4–1984:3[a]





[1977 = 100]

Period	Prices received by farmers			Prices paid by farmers			Ratio
	All farm products	Crops	Livestock and products	All commodities, services, interest, taxes, and wage rates	Production items, interest, taxes, and wage rates	Production items	
1977	100	100	100	100	100	100	100
1978	115	106	[illegible]	108	109	108	106
1979	132	116	147	123	125	124	107
1980	134	125	144	138	139	138	97
1981	139	134	143	150	151	148	93
1982	133	121	145	157	156	150	85
1983	134	127	141	160	158	153	84
1984	142	138	146	164	161	155	87
1984: May	148	148	148	166	163	157	89
June	144	143	143	165	162	156	87
July	145	144	146	164	161	155	88
Aug	143	144	143	164	161	154	87
Sept	139	136	141	164	160	154	85
Oct	138	133	138	163	158	152	84
Nov	137	130	143	164	159	153	84
Dec	136	126	146	165	159	152	83
1985: Jan	138	126	145	164	160	154	83
Feb	139	128	148	164	160	154	85
Mar	134	127	141	164	160	153	82
Apr	131	126	136	165	160	155	79
May	129	124	134	165	160	152	78

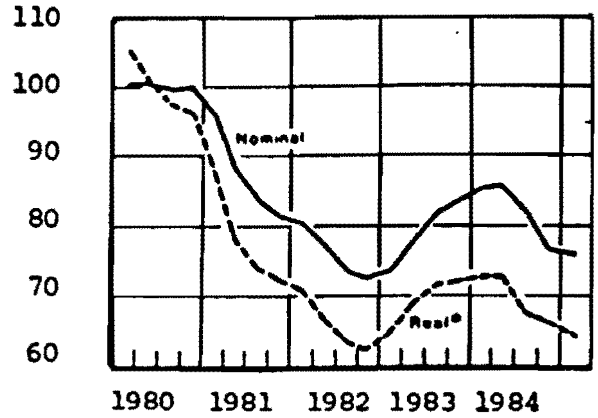
Source: Council of Economic Advisors, Economic Indicators, June 1985, p.25; Jeffrey Sachs, "The Dollar and the Policy Mix: 1985," Brookings Papers on Economic Activity (1:1985), p.123.

FIGURE 9

Commodity Prices

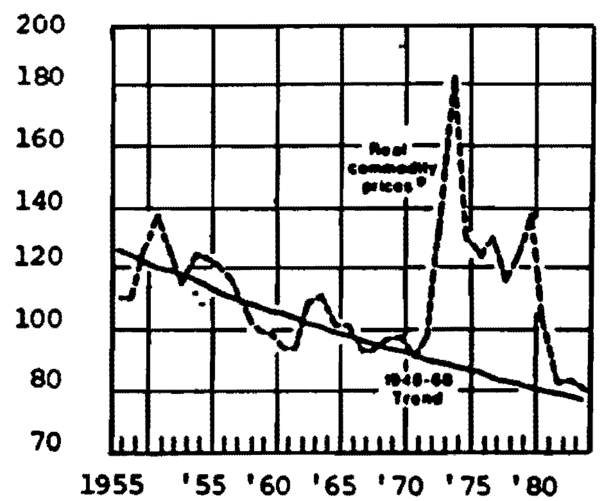
IMF COMMODITY PRICE INDEX

U.S. Dollars 1980 = 100



WORLD BANK COMMODITY PRICE INDEX

U.S. Dollars 1961-68 Average = 100



*Commodity prices deflated by United States Producer Price Index.

Source: A. Steven Englander, "Commodity Prices in the Current Recovery," Quarterly Review (Federal Reserve Bank of New York), Spring 1985, p.14.

without the support of so strong a dollar, tomorrow's purchasing power would be further reduced by price increases that absorb liquidity and real wealth.

Finally, the dollar has shifted the displacement burden of the fiscal deficit from business investment to international trade. Under a fixed exchange standard, the government's borrowing would simply draw liquidity from abroad. As long as the Fed sterilized the inflationary consequences of the inflow, competitiveness of our traded goods would not suffer. But a commitment to allow the dollar to float upwards with the inflationary pressure of the deficit has divested the central bank of the discretionary power it used to exercise over U.S. terms of trade. The well-known "crowding out" effect shows up in an unfamiliar form.

The grave and manifold implications of the dollar problem have stirred debate over whether the government should take some corrective action. The character of the response should be dictated by the nature of the problem. To many, the problem is that the dollar is overvalued, a verdict which rests essentially on a judgement that the consequences of its radical appreciation are unacceptable. Others who are reluctant to act at all or fear the consequences of misguided action deny that a floating exchange rate can be overvalued. As Treasury Secretary Donald Regan explained in February 1984: "In a floating exchange rate system there can be no correct value to any currency other than the value given to a currency through market transactions." They have a point. The experiences of a decade of floating rates has shown that currency values are determined by shifts of supply and demand in asset markets. Because the time and cost of portfolio adjustment are small and information widely available, these markets are clearing continuously. In this sense, short run values of the dollar are indeed equilibrium values.

But the point they score is tautological. The issue is not <u>how</u> the dollar acquires value, but <u>why</u> the market attaches such a value to it. Another way in which the issue is often posed is as follows: is the value of the dollar "justified by the fundamentals"? In the opinion of the staff, the appropriate reply is that

the value of the dollar is consistent with structural financial imbalance in the U.S. economy; the fundamentals explain, but do not justify, the exchange rate.

But what are the policy implications of concluding thus, that the exchange rate is right for the wrong reasons? How does it settle the question of what, if anything, should be done? As we review alternative courses of action it will become clear that the dollar problem is one way to distribute the burden of fiscal imbalance. It is not the only one. Policymakers can engineer a change in the value of the dollar, and in a narrow sense solve the dollar problem, but in so doing they will only transform and redistribute macroeconomic costs.

Let us proceed through a number of policy choices and their consequences, starting with the assumption that fiscal policy is unchanged. To be more specific, we are assuming that no legislated reduction in the budget deficit occurs. Of course the size of the deficit will still be sensitive to the particular mix of rates of interest, inflation, and growth arising in each scenario. The budget has lately proven so intractable that there would be considerable appeal in an approach that did not depend upon it.

(i) The first option is to do nothing. For many people, the most distressing thing about the present situation is that it is unsustainable. Never before has a country been able to run external deficits of this size. By the end of this year the U.S. current account deficit will probably exceed the combined deficit of all non-oil LDC's at its peak in 1981, just before the debt crisis. More extraordinary still is the fact that this deficit has been privately financed almost completely in our own currency--that is, by an inflow of dollars from investors, rather than by official reserve transactions. So the foreign private sector currently bears all the exchange rate risk. The U.S. has become a net debtor, a status it has not held since the First World War and one that hardly befits the largest, wealthiest, and most advanced economy in the world. Presently interest obligations will impart to it a dynamic expansiveness, and the debt will be reckoned in the trillions before the decade ends. At some point foreign investors

will evince reluctance to finance any more U.S. debt; the inflows will ebb. As support is withdrawn the dollar will fall.

Its descent may already have begun. From March to mid-summer the effective exchange rate has fallen by 13 percent. But it has already been too high too long, and the decline not swift enough to spare Americans from the pains of adjustment. To restore balance to our current account we will have to generate trade surpluses indefinitely to compensate for the net outflows of investment income that service our foreign debt. If underlying terms of trade have not greatly changed since 1980, this achievement will probably require that the exchange rate fall more than it has risen in the interim.

Regular trade surpluses were easy for the U.S. before 1970, but have occurred only rarely since then. Even the collapse of the dollar would not restore the era of our unrivalled economic dominance. Commercial competition from Europe and the Far East will still be intense, energy will remain dear, and other countries will need to export to repay their own debts. We have become accustomed to more comfortable levels of social insurance and social organization of the work place that does not favor rapid productivity growth. If the net inflows since 1982 had shifted U.S. capital formation to a higher trend rate of growth, then we could pay back those future rents without a loss of consumption, without a lower standard of living. As we have seen, however, the investment rate has only barely recovered to the norm. The fall of the dollar will usher in a period of austerity, and it will hurt.

Rapid depreciation would entail additional adjustment problems. A loss of confidence in the dollar would jack up real interest rates, increase both the budget deficit and the external deficit in the short run, then the much higher cost of our import bill would register in the general price level and in wage renegotiations. The Fed would be placed in an unenviable position. Constrained on the one hand by investor fears of inflation and mounting external debt, and on the other by the pressure of the fiscal deficit in both goods and financial markets, the Fed would probably try its luck with a recession.

A number of other people disagree that a fall of the dollar is in the offing. They argue that we cannot rule out the possibility that international investors would be prepared to continue placing annually about one-tenth of the world's net savings of over $1 trillion in the U.S. economy. So long as the U.S. current account does not get much worse than it is now, such capital flows, though unprecedented, might persist. And really such rates of investment are not so extraordinary when one considers the large proportion of the world's stock of wealth that is stored in dollars: some 60-80 percent of official reserves, OPEC reserves, Eurodollar loans, new Eurobond issues, and LDC liabilities.

Surely there was an irony in arguing that the danger of a strong dollar lies primarily in the likelihood that it will weaken. Indeed one can make a case that sustainable strength is the most compelling reason to take corrective action. Certain traded goods industries that are forced to cut costs over several years may innovate and become more efficient, but some efficient ones contract and others partially reestablish operations abroad. What is least likely to be sustainable under these conditions is the traditional official commitment to free trade. Protectionist appeals have moved the Congress and Executive in a previous interval of overvaluation, 1968-71, just prior to the breakdown of the Bretton Woods System. To tackle macroeconomic problems with commercial policy is neither economically efficient nor diplomatically wise.

(ii) For a direct and expeditious depreciation, three possibilities present themselves. One is central bank intervention in foreign exchange markets, either unilaterally or coordinated among a few major industrial countries. A second is capital controls or interest equalization taxes. Finally, there is monetary expansion. All attain the objective, in principle, by stemming the inflow of capital--by inducing certain expectations, by manipulating incentives, or both. But they may not be equally effective, and the general equilibrium outcomes they yield involve different tradeoffs.

The practicability of exchange market intervention is a matter of dispute. Even proponents doubt that central bank transactions on a conceivable scale could by themselves effect lasting and significant change in rates. A series of limited actions, however, may be sufficient to change rates noticeably in the short-term. It is said that the volume of transactions in the market on a given day is only on the order of $500 million. Banks could marshal the necessary resources to send market participants a clear signal as to target ranges they deemed to be consistent with official policy objectives. To construe this as a futile attempt to "second guess" the market, or "lean against the wind," is to see the roles of the actors in reverse. It is not the authorities who are guessing, but the market. Values determined by the market reflect speculation about what policymakers will do. Conveying useful information to the market is a way of guiding expectations. Driven by informed expectations, investors would sell dollar assets and bring about depreciation. Some experts find this reasoning persuasive. The staff does not have the expertise to make judgement, but we are impressed that among the major countries those officials who supposedly have the power to intervene effectively have shown so little inclination to exercise it, except for the purpose of stabilizing disorderly markets.

An interest equalization tax would ease pressure on the dollar by denying foreign investors the premium they have been earning on U.S. financial assets. The disincentive would induce depreciation. Most countries have some experience with capital controls of one form or another. Recently, Germany and Switzerland resorted to a similar measure when an episode of capital flight from the dollar threatened to appreciate their currencies. The United States used an interest equalization tax in the 1960s and early 1970s to discourage capital outflow. Capital found ways to get around it, and the tax may be credited more with fostering the offshore currency markets than with supporting the U.S. balance of payments. Evasion remains a problem, so if it were reintroduced today, a capital tax would probably drive transactions in dollar assets into the Eurodollar market rather than driving capital away from the dollar.

A variant of this approach would confer responsiblity for administering the tax on the countries in which most of the capital flows originate. Enforcement would hardly be facilitated, and an additional practical difficulty arises. For years the U.S. has been consistent and outspoken in its opposition to impediments in world capital markets. Only as recently as 1980 Japan finally yielded to American prodding and opened its capital markets substantially. To reverse our position and exhort her to close them again would, to say the least, prove diplomatically embarrassing.

A monetary expansion is the one sure expedient. The Fed possesses indisputable power over domestic market rates of interest. Injecting a larger stream of liquidity into the U.S. economy would bring down yields on U.S. assets directly and dampen the incentives behind the capital inflow. Expectations may also play a role in driving the depreciation. If investors anticipate that inflation will resume, they will want fewer dollar assets in their portfolios. Loose monetary policy has been tested in a situation of overvaluation before and its efficacy was confirmed. When the dollar was under enormous pressure because of rising U.S. payments deficits at the outset of the 1970s, the Fed embarked upon what has been called "one of the most aggressively expansionary episodes in its history," and the effective exchange rate of the dollar fell about 20 percent between July 1971 and March 1973.

Now we consider the dynamics of adjustment in the economy when each of these corrective instruments is deployed. As we emphasized in our analysis of the strength of the dollar, the key to understanding exchange rates and the balance of payments lies in the pattern that develops among the fundamentals. Correcting the dollar problem will have to involve the reversal of present imbalances--investment in excess of saving, spending at a level that cannot be supported by current income, shifts in relative prices that are unfavorable to internationally competitive U.S. industries.

If central bank intervention in foreign exchange markets succeeds in generating expectations of depreciation, the demand for dollar assets will drop and current holders of these assets

will sell. Immediately the yield on these assets will rise, and in short order real interest rates in the U.S. will rise as well. A tax on capital flows to the U.S. would have the same effect, regardless of which country administered them. This outcome reflects the interest parity relationship: dollar assets must return a premium over comparable assets equal to the expected depreciation of the dollar. Over the longer term higher real interest rates will persist, as less external financing is made available for the fiscal deficit and domestic capital formation. The higher cost of borrowing is necessary to crowd out enough investment so that limited funds can be absorbed by the deficit while the overall balance of national saving and investment improves.

Investment spending may not have to fall by the full decline in net capital inflow. This is because private savings will probably increase. Depreciation of the dollar will raise the cost of imports measured in dollars, and within a year or two commodity prices, including food prices, will probably rise in accordance with their traditional inverse relationship to the dollar. Prices of traded goods can rise to restore normal levels of profitability, as pressure from foreign competition subsides and foreign demand for them revives. As a result, the general price level in the U.S. increases, which erodes the real value of wealth and tends to encourage a greater propensity to save out of income. Domestic spending, on the other hand, will be restrained by the higher real interest rates. These are the components of a new balance in the economy with a lower exchange rate, less borrowing, and higher net exports.

The monetary expansion approach takes a different route to a different outcome. This is how it might work. The Fed would lower the interest rate to depreciate the currency (by reversing capital flows) and stimulate the economy to grow its way out of both the budgetary and external deficits. It would seem that, short of a major legislative commitment, growth is the only way to control the budget deficit. The two policies described above stand a good chance of inducing a recession. If the U.S. is already slipping

into a recession this year, a modest expansion of domestic credit right away might prove timely.

Recession increases the fiscal deficit through those components that are sensitive to the business cycle. The continued high interest rate imposes a greater debt service obligation on the annual budgets. Now that federal interest payments alone have reached 5 percent of GNP, they will soon develop their own dynamic. The key to maintaining control over debt service consists in narrowing the difference between the rate of interest and the rate of growth. At a GNP growth rate of 1 to 3 percent and real interest rates of 5 to 8 percent, unless the annual budget is in surplus, the stock of federal debt grows rapidly as a percentage of GNP and with it the debt service, which in turn will make future reductions in the total deficit more difficult even with significant retrenchment in the discretionary components of the budget. The public sector will relentlessly absorb a larger and larger share of domestic financial resources, the external deficit and U.S. interest rates may be locked into a pattern of increase.

By contrast, the monetary expansion would pull down interest rates, and as higher domestic spending and net exports stimulate the growth of income, additional gross private saving and taxes together with lower federal and foreign investment interest payments might improve the national financial balance. If the decline in the dollar is accompanied by an improvement in the current account, this will be the way to explain the outcome in terms of the fundamentals. However, the fundamentals need not respond in this manner, and then the outcome will be less favorable.

The scenario we have described assumes stable prices in the United States. A certain amount of inflation would conceivably improve the public finances even more, as it evidently did in the late 1970s. But courting inflation is a hazardous business. It could offset the competitive advantage that traded goods industries would enjoy through depreciation. Inflationary demand expansion might result in no relief to the trade balance at all, even though the dollar weakens. Consider again the balance of

saving and investment, income and spending. Income growth achieved through money expansion is more dependent on domestic spending and investment than is income growth based on restraint at home and an export boom. Growth concentrated in internationally competitive industries benefits the U.S. balance of payments more than growth in services, homebuilding, and other interest rate-sensitive industries.

Inflationary growth might actually worsen the balance of payments of the U.S. If it generates enough uneasiness in financial markets, there could be a run on the currency as investors try to divest themselves of dollar assets, and we might see a replay of the severe depreciation of 1977-78, when Federal Reserve policy turned expansionary to counteract the interest rate effects of investors' hedging out of dollars. In addition to a large current account deficit there was a net capital outflow from the U.S., which together had to be financed from central bank reserves. Inflation is a real danger with a markedly looser monetary policy, because of the immense fiscal stimulus implicit in the structural budget deficit.

The choices for policy do not offer us very favorable terms for resolution of the dollar problem. We can lower the dollar. But that may not improve our competitiveness. To redress the imbalance of trade an improvement in the underlying financial balance of the economy must accompany exchange rate change. Without retrenchment in the public sector, it is unlikely that this can come about except through austerity in the private sector. Real interest rates have to rise in order to ration demand for borrowed funds--in other words, crowd out enough capital formation so that we can continue to run federal deficits. The domestic price level has to rise substantially without accommodation from the Fed, so that our liquidity will be restricted and our real expenditure--our standard of living--will be reduced.

We have discussed three ways to restore a competitive exchange rate. We have cited doubts about their feasibility. All require trade-offs for a lower dollar; the costs of the fiscal deficit have to be borne somewhere. If successful, capital taxes and

intervention shift the burden from traded goods to business investment and the general standard of living. In monetary expansion we have a reliable instrument for depreciating the currency. But it is questionable whether internationally competitive industries would really come out ahead of inflation. Hence there may be no shift of the burden at all. External imbalance might persist. Adjustments might simply be deferred while the whole economy bears the burden of renewed inflation.

For the farm sector there can be little appeal in trading off a high dollar for higher real interest rates. The levels from which those rates are only beginning to fall exacerbated the effect of the exchange rate on commodity prices. LDC purchasing power collapsed in 1982-83 as sharply rising debt service obligations cut their foreign exchange reserves. Supplies on the market have been larger with the liquidation of stocks too costly to hold. And farmers, of course, are borrowers themselves on a substantial scale. Even in normal times farm cash flow is sensitive to interest rates, by virtue of the capital intensity of operations. But these times are not normal, a ponderous overhang of debt oppresses farmers and gives them a compelling, but ambivalent, stake in the macro balance.

For this reason some will look with hope to the possibilities of a monetary expansion. A lower dollar combined with lower interest rates and inflation may appear to serve their interests--both commercial and financial--rather well. After all, weren't these the macroeconomic foundation of U.S. agriculture's impressive performance in the 1970s? Perhaps the precedent of 1971-73 should guide the Federal Reserve policies of 1985-87. There is a curious cyclicity in the world economy. The dollar problem and the farm problem have in some respects completed a cycle since the 1960s. A lesson one may be tempted to draw from the downswing is that a repetition of the past will provide the way to the future. Another way to look at the same evidence is that the excesses of the past become the adjustment burden of the present.

The financial crisis in agriculture is arguably its chief competitive handicap. Overcapitalization in land and equipment,

overproduction, and overindebtedness developed in conditions many took to be favorable--weak dollar, inflation, and negative real cost of borrowing. Neither the conditions nor the responses were sustainable. Having learned that much from the past, we must handle the burden of its legacy in such a way that extreme shifts in the macroeconomic environment of the future do not again find so many farms, agribusinesses, and banks that serve them so vulnerable to disruption.

For U.S. agriculture the appropriate exchange rate will be one that preserves the competitiveness of the sector when its assets and liabilities, its resources and investments, are restored to more appropriate levels. Macroeconomic policy can facilitate these adjustments if it addresses the dollar problem at the source, the state of public finances. Approaches that transform its costs and shift them from one sector to another will only weaken agriculture in the long run.

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ADDITIONAL EMPHASIS ON VALUE-ADDED TRADE

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ADDITIONAL EMPHASIS ON VALUE-ADDED TRADE

POLICY STATEMENT

The rate of growth of value-added exports is currently fast outstripping the rate of growth of raw commodity exports, as a percentage of total worldwide agricultural trade. Many nations, in both the industrial and developing worlds, have been quick to recognize the tremendous economic benefit to their societies of expanded levels of value-added and high-value product exports. U.S. exports of these products accounted for roughly one-third of total U.S. agricultural exports in recent years. By contrast, the percentage of value-added and high-value exports in total agricultural exports comprised 74 percent of French exports, 40 percent of Australian exports, and 51 percent of Brazilian exports in the same period.

The list of value-added products traded by our leading agricultural competitors – meats, dairy products, cereal preparations, refined sugar, canned fruits, vegetable oils and oilseed preparations, to name a few – reads like a catalogue of issues of outstanding dispute between these countries and the United States. In most cases, the value-added product exports of these nations benefit from some form of direct government assistance. As a consequence, the European Community is now the world's leader in value-added agricultural exports, with exports of such products becoming steadily more important in countries such as Brazil, Australia, Canada, and Argentina.

It is clear that the United States needs to do much more to promote the export of value-added and high-value products.

RECOMMENDATIONS

The Commission recommends:

1. **Congress declare it to be the policy of the United States to expand exports of value-added and high-value agricultural products toward the goal of achieving parity between such exports and raw commodity exports, with an assurance that the highest level possible of raw commodity exports be obtained.**
2. **Greater use be made of currently authorized export promotion programs of the federal government to expand exports of value- added and high-value agricultural products.**
3. **A new commodity division be established within the Foreign Agricultural Service (FAS) or other agency, as elsewhere recommended in this report, to support value-added products not now covered by cooperator agreements and that a cooperator organization be created to assist the marketing role of the division.**

Value-Added Export Promotion

The Commission commends the Department of Agriculture for its recent efforts to include a greater variety of value-added and high-value agricultural products in programs designed to expand U.S. agricultural exports. Many such products, including red meats and poultry, face significant competition in international markets as a result of unfair foreign trade practices. Quotas on U.S. meat exports to Japan, and the European Community Third Country Directive in respect to U.S. meat exports are examples of such practices. In addition, **the Department of Agriculture should continue its efforts to further promote sales of value-added and high-value products, including expanded efforts in regard to export sales of United States specialty crops and forestry products.**

The work of the value-added product division within the Foreign Agricultural Service (FAS), which is recommended for establishment by the Commission, should include market analysis for products in this category as well as market development. The cooperator organization, to support its work, should be broadly based and include export trading companies and export management companies dealing in food products, as well as manufacturers and distributors of individual brands and product lines.

COMMENTARY

World trade in agricultural products has

undergone several marked changes in composition and direction since the 1970s that have led to the emergence of a large and growing market for high-value agricultural products (HVAP). Two distinct world markets for farm products have emerged during the 1970s – a market for bulk low- value agricultural products (LVAP) and a market for high-value, generally processed products.

The fastest growing world markets for farm products are for processed rather than for the bulk or low-value agricultural products. The rate of growth in high-value agricultural products such as meats, fruits, vegetables, and oilseed products has been faster than trade in low-value bulk farm commodities such as grains and oilseeds since the 1970s. More than half of the value of total world agricultural trade is now made up of semi- processed products such as flour, oilseed products, and meats and product; highly processed foods such as dairy products and food preparations; and high-value unprocessed commodities such as fruits and vegetables. World trade in these high-value and value- added products accounts for fully 55 percent of total agricultural trade. What is not recognized is that not all countries and products have participated equally in the growth in world agricultural trade.

During the decade of the 1970s, growth in world agricultural trade was rapid and the U.S. participated fully in this trade. During those years, the value of world agricultural trade increased about fourfold – from $57 to $222 billion – while the value of U.S. agricultural exports increased more than fivefold, from $7 billion to more than $41 billion. As a result, the U.S. market share rose from about 15 percent in 1970-71 to 18 percent in 1980-83.

The U.S. share of the world trade in high-value products is a mere 12 percent, far below what one would expect, given our comparative advantage in farm production and the cost efficiency of our processing sector. Most of this was in the semi-processed category rather than in the highly processed or high-value unprocessed categories.

In contrast, the U.S. share was over 30 percent of the $100 billion trade in low-value agricultural products. Low-value agricultural products include raw materials such as cotton and tobacco, and bulk food products such as grains and oilseeds. The United States has done relatively well over the past decade in expanding the export of the traditional bulk commodities. It has not done so well with exports of high-value products.

Many nations, in both the industrial and developing world, have been quick to recognize the tremendous economic benefit to their societies of expanded levels of value-added and high-value product exports. U.S. exports of these products accounted for roughly one-third of total U.S. agricultural exports in recent years. By contrast, the percentage of value-added and high-value exports in total agricultural exports comprise 74 percent of French exports, 40 percent of Australian exports, and 51 percent of Brazilian exports in the same period.

The list of value-added products traded by our leading agricultural competitors – meats, dairy products, cereal preparations, refined sugar, canned fruits, vegetable oils and oilseed preparations, to name a few – reads like a catalogue of issues of outstanding dispute between these countries and the United States. In most cases, the value-added product exports of these nations benefit from some form of direct government assistance. **As a consequence, the European Community is now the world's leader in value-added agricultural exports, with exports of such products becoming steadily more important in countries such as Brazil, Australia, Canada, and Argentina.**

Market Developments

A number of developments over the 1970s led to the emergence of two distinct world markets for farm products – a market for bulk, low-value products and a market for high-value, usually processed products. Increased affluence and growth in population worldwide generated faster growth in demand for basic foods and feedstuffs than most countries could supply from their own farm sectors. The resulting growth in import demand was particularly strong in grains and oilseeds, and the United States succeeded in capturing almost two-thirds of the expansion in this bulk trade.

Increased affluence in the past decade in a

smaller circle of developed and middle-income countries also generated stronger demand for higher-value farm products. Included among the products in this second group were highly processed items to upgrade and diversify diets and semi-processed products to aid the local production of highly processed, consumer-ready products. This growth in high-value product demand was fast enough to outpace growth in local production or processing capacity. The end result was a significant increase in high-value product import demand in the developed countries and a phenomenal increase in high-value import demand in the middle-income countries. This increase in import demand was filled by the European Community (EC) and, to a lesser extent, the United States and a few other developed countries with sophisticated processing capacity already in place.

Composition of High-Value Agricultural Trade

World trade in HVAP grew fast enough between 1970-72 and 1980-83 to overtake and surpass the trade in bulk, low-value agricultural commodities. World exports of HVAP increased 298 percent during this period while total agricultural trade increased 185 percent (Table 1). The fastest growing export commodities were processed coffee and cocoa products, 107.8 percent; miscellaneous food products which include margarine, shortening, soups, yeast, and other prepared foods, 469 percent; refined sugar products, 444 percent; manufactured tobacco products, 407 percent; and animal and vegetable oils, 300 percent. All exports in these commodities grew more rapidly than did trade in all commodities or in low- value commodities such as grains, oilseeds, and raw sugar.

Historically, the developed countries have been the major markets for agricultural products as well as the major source of food supplies. For example, they accounted for 72 percent of the world's imports and accounted for over 58 percent of the exportable supplies of agricultural products (Table 2). The developed countries have accounted for an even larger share of the world's exportable supplies of high-value agricultural products – increasing their share from 75 percent in 1970-72 to 77 percent in 1980-83. Most of this increase, as well as supply of HVAP exports was accounted for by Western Europe – accounting for 57 percent of the exportable supplies in 1980-83 (Table 2) and 57 percent of the increase in the world's exports of HVAP from 1970-72 to 1980-83.

During this time, the United States accounted for about 13 percent of the increase in the world's exports of HVAP from 1970- 72 to 1980-83 and only about 12 percent of the world's exports in 1980-83.

Expansion in World Trade in HVAP; Prospects and Implications

Most of the factors that encouraged growth in high-value product trade in the 1970s appear likely to continue in the 1980s. The pace of growth in import demand could slow somewhat as high-value product consumption in several of the developed countries move toward saturation levels and many developing countries increase their local high-value production and processing capacity. It was this lack of local processing capacity in many of the fastest growing developing countries coupled with the demand for more diverse diets in the developed countries that fueled the high- value import growth of the 1970s. The high-value sector is still likely, however, to dominate growth in farm products trade as the push to upgrade and diversify diets continues in importing countries with limited capital and technology necessary to process food and fiber.

The high-value export pattern that emerged over the 1970s was due as much or more to government policies and programs that exist abroad than to market forces at work in the United States. The aggressive high-value export subsidy and promotion programs in use abroad, particularly in the EC, work to neutralize the United States' input and processing cost advantages and limit the U.S. share of the world high-value market to 12 percent.

In 1980, the value of EC exports to the rest of the world totaled $26.5 billion. However, the EC paid out $7.6 billion in export subsidies in order to move the increasing production of agricultural products resulting from their high internal prices that are well above world levels.

Table 1.--Composition of world agricultural trade, 1970-72 and 1980-83

SITC code and product	Total agricultural trade			High value agricultural products		
	1970-72	1980-83	Change	1970-72	1980-83	Change
	Billion U.S. dollars		Percent	Billion U.S. dollars		Percent
00-02 Livestock and products	10.44	41.36	296	10.44	41.36	296
04 Grains and products	8.77	41.36	372	2.02	7.62	277
05 Fruits, vegetables, nuts, and products	4.20	16.42	291	4.20	16.42	291
06 Sugar and products	3.07	13.65	345	0.89	4.84	444
07 Coffee, cocoa, tea, and spice	4.96	17.70	257	0.27	3.18	1,078
08 Feeding stuff--oilseed meal, etc.	1.78	7.25	305	1.55	6.45	316
09 Miscellaneous foods	0.67	3.81	469	0.67	3.81	469
Subtotal	33.90	141.55	315	20.04	83.68	318
11 Wine, beer, and beverages	1.44	5.47	280	1.44	5.47	280
121 Tobacco, unmanufactured	1.42	4.26	200	—	—	—
122 Tobacco, manufactured	0.73	3.70	407	0.73	3.70	407
Subtotal	3.59	13.43	274	2.17	9.17	323
21 Hides and skins	1.38	4.23	206	1.38	4.23	206
22 Oilseeds	2.52	10.06	299	—	—	—
23 Natural rubber	1.00	3.40	240	—	—	—
26 Fibers, cotton, wool silk	4.74	13.71	189	0.37	0.63	70
29 Crude animal and vegetable materials	1.60	6.14	284	1.60	6.14	284
Subtotal	11.24	37.54	234	3.35	11.00	228
4 Animal and vegetable oils	2.53	10.12	300	2.53	10.12	300
Unspecified	6.30	20.07	219	2.52	7.67	226
World agricultural exports	57.55	221.81	285	30.61	121.64	298

Source: FAO Trade Yearbook 1975 and 1983-84.

Table 2.--Regional composition of high and low value agricultural exports, 1970-72 and 1980-83

Exporting region or country	Total agricultural exports		High value agricultural products		Low value agricultural products		High value share	
	1970-72	1980-83	1970-72	1980-83	1970-72	1980-83	1970-72	1980-83
	Billion U.S. dollars						Percent	
Developed countries	33.44	141.97	21.89	93.76	11.55	48.21	65.5	66.0
North America	10.55	48.74	3.50	16.91	7.05	31.83	33.2	34.7
United States	8.40	40.93	2.71	14.46	5.69	26.47	32.2	35.3
Canada	2.15	7.81	0.79	2.45	1.36	5.36	36.7	31.4
Western Europe	18.25	78.25	15.81	69.10	2.44	9.15	86.6	88.3
EC-10	16.13	70.84	13.83	62.03	2.30	8.81	85.7	87.6
Other Western Europe	2.12	7.40	1.98	7.07	0.14	0.33	93.4	95.5
Other Developed	4.64	14.98	2.58	7.75	2.06	7.23	55.6	51.7
Australia	2.50	8.55	1.04	3.30	1.46	5.25	41.6	38.6
Japan	0.32	0.93	0.29	0.80	0.03	0.13	90.6	86.0
New Zealand	1.11	3.52	0.87	2.72	0.24	0.80	78.4	77.3
South Africa	0.71	1.98	0.38	0.93	0.33	1.05	53.5	47.0
Centrally Planned Countries	5.28	15.14	2.60	4.54	2.68	10.60	49.2	30.0
East Europe	2.56	7.85	1.00	1.85	1.56	6.00	39.1	23.5
USSR	1.51	2.72	0.55	0.44	0.96	1.78	36.4	34.5
China (PRC)	1.21	4.57	1.05	1.75	.16	2.82	86.8	38.3
Less Developed Countries	18.83	64.70	5.82	23.34	13.01	41.36	30.9	36.1
Latin America	8.00	30.28	2.98	9.64	5.52	20.64	31.0	31.8
Argentina	1.49	5.67	1.09	3.00	.40	2.67	57.7	47.1
Brazil	2.22	9.09	.67	5.38	1.55	3.71	30.2	40.8
Africa	3.90	8.87	1.07	2.71	2.83	6.16	27.4	30.5
Near East	2.32	6.37	0.98	2.81	1.34	3.56	42.2	44.1
Asia	4.61	19.18	1.29	8.18	3.32	11.00	28.0	42.6
World Agricultural Exports	57.55	221.81	30.31	121.64	27.24	100.17	50.9	55.8

Source: FAO Trade Yearbook, 1975, 1980, 1984.

Unfortunately, in addition to destabilizing world markets, these subsidies often push EC export prices below world price levels. Poultry is a prime example.

There was a time when the European Community was the world's largest importer of poultry meat. Today, it is the world's largest exporter of poultry meat. It is subsidizing poultry products into other markets to the point where the U.S. industry has become a relatively small supplier in such markets as the Middle East.One major limitation to expansion of trade in HVAP is that importers often want to capture the value added associated with the processing. Japan presents a good example. Japanese consumers like high-quality beef such as we produce in the United States. But import quotas of beef in Japan make it very difficult to export much of our beef to that country.

Consumers in Japan pay about $14 per pound for U.S.-produced beef striploin, while in nearby Hong Kong the same product costs around $3.50 per pound. The reason for this huge differential is that the Japanese protect their internal food industry even though it may be highly inefficient.

Brazil is another example of a country using various taxes, credits, and other subsidies to encourage the exportation of processed products. Most of Brazil's exports of soybeans are in the form of oilmeal because of these policies.

The United States' concentration of over two-thirds of its exports in the low-value market has minimized the impact of expanded farm exports on the rest of the economy. In simple terms, high-value exports involve selling both a product and a service – a service that tends to be capital- and labor-intensive – and involves a wide range of economic activities. Low-value exports, on the other hand, involve exporting a bulk product or commodity with little labor input: only a few areas of the economy outside of agriculture are involved.

The concentration of U.S. agricultural exports near the bottom of the foodgrain and feedstuffs processing line, for example, keep the employment associated with grain exports well below what it would have been with more balanced shipments of bulk, semi-processed, and high processed products. The loss of GNP potential is even larger. In many cases, bulk exports limited the economic activity associated with farm trade in the United States to less than half the benefit enjoyed by countries with a more balanced mix of exports. If we had achieved a growth in high-value exports comparable to the growth in our low-value trade, it is estimated that we would now have an additional $9 billion in high-value exports and an additional 350,000 American employed in processing, marketing, and handling.

An earlier study by the USDA has estimated that by the end of this decade, the high-value product market could reach between $310 to $440 billion and it expects, with current policies both here and abroad, that the United States would maintain a 10 percent share.[1] If we could capture 15 percent of the high-value product market that is anticipated by 1990, we could expect the additional 5 percent share to generate a 1 to 2 percent increase in GNP and create about 1.5 million more jobs – 500,000 more jobs in the farm sector and 1,000,000 in the nonfarm sector. Achieving this objective will be difficult. Nevertheless, **it is clear that the United States needs to do much more to promote the export of value-added and high-value products.**

REFERENCES

1. Economic Research Service, USDA "High Value Agricultural Exports: U.S. Opportunities in the 1980s." Foreign Agricultural Service Report No. 188, September, 1983.

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REORIENT FOOD AID AND U.S. FOREIGN ECONOMIC ASSISTANCE TO SERVE LONG-TERM MARKET DEVELOPMENT OBJECTIVES

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REORIENT FOOD AID AND U.S. FOREIGN ECONOMIC ASSISTANCE TO SERVE LONG TERM MARKET DEVELOPMENT OBJECTIVES

POLICY STATEMENT

Food aid and foreign economic assistance programs of the United States government have a potential to better serve the objective of long-term market development for U.S. agricultural commodities and products. In recent years, however, this potential has been undercut by the conflicting priorities of the different federal agencies empowered to plan and administer food aid and foreign economic assistance programs and budgets.

Market development applications of these programs should have much greater emphasis in foreign economic policy. The food aid component of total U.S. economic assistance should be substantially increased, in keeping with our nation's pre-eminent position as the world's agricultural leader. Greater leadership in agriculturally related foreign economic assistance should be given to the Secretary of Agriculture to ensure such programs imaginatively and effectively serve the long-term objective of foreign market development.

Stronger safeguards are necessary to ensure that foreign economic assistance programs of other agencies of government do not directly counter the nation's agricultural trade interest through development of competing foreign agricultural trade capabilities in like products. Approval of foreign agricultural research and technical assistance projects currently undertaken by colleges, universities, and other organizations within the United States and abroad which are financed using federal funds should be assigned to the Secretary of Agriculture.

RECOMMENDATIONS

The Commission recommends:

1. **Explicit requirements be put into effect to ensure that food aid and foreign economic assistance programs serve U.S. agricultural market development interests.**
2. **A "Food First" policy substantially reliant on food aid in lieu of cash-basis assistance be promulgated as the focus of U.S. economic assistance to the poorest nations of the world.**
3. **The Secretary of Agriculture be assigned a greater leadership role in food aid and foreign agricultural economic assistance matters.**
4. **Full use be given to all food aid programs currently authorized by law.**
5. **Safeguards be put in place to ensure that U.S. foreign agricultural economic assistance programs do not run counter to U.S. agricultural trade interests.**
6. **Foreign agricultural research and technical economic assistance projects undertaken by colleges, universities, and other organizations in the United States and abroad, which are financed using federal funds, be made subject to approval by the Secretary of Agriculture.**

Market Development Requirements

The Congress and the President should establish it to be the policy of the United States government to better utilize food aid and foreign economic assistance programs of the U.S. government to promote the development of markets for U.S. agricultural commodities and value-added products.

Agencies and nongovernmental entities administering food aid and agriculturally related foreign economic assistance programs, other than direct feeding or emergency food aid, should be required to certify that such programs serve direct market development objectives for U.S. agricultural commodities and value-added products.

This provision should include reporting requirements in respect to Title I/III, P.L. 480, Section 416 and "Food for Progress," sales for local currency, and USAID technical and economic assistance programs and other such programs of the federal government.

"Food First" Policy

The Congress and the President should establish it to be the policy of the United States to provide economic assistance to foreign nations in the form of "food first," to the extent such practice does not displace on-going U.S. commercial sales. As a specific goal, Congress should call upon the Administration to restore the proportion of food aid in its foreign economic aid budget from the current level of 18 percent to one-third of the total of all such assistance, the same proportion of food aid resources as provided in the period 1968-1972. The Commission believes that a shift in resources of this nature would advance the overall objectives of U.S. foreign economic assistance effectively, without additional cost to the U.S. Treasury.

In the event Congress does not approve funding for food aid programs as recommended above, the Commission urges Congress to consider providing such increases in funding by direct appropriation.

USDA Leadership Role

Congress or the President should designate the U.S. Department of Agriculture (USDA) to be the lead agency within the federal government in all matters of agriculturally-related foreign economic assistance. The extension of new authority in any matter of foreign agricultural economic assistance to any agency of government other than the U.S. Department of Agriculture should be prohibited, except as provided for above, or upon agreement by the Secretary of Agriculture.

All agencies of government that have programs or take actions that potentially or actually affect agriculturally-related foreign economic assistance should be required to report to the Secretary of Agriculture semiannually on the extent to which such programs or actions affect agriculturally-related foreign economic assistance, the extent to which such programs or actions contribute to expanded U.S. agricultural exports, and the extent to which such programs or actions are consistent with the goals, objectives, and program recommendations contained in the most recent President's Annual Long Term Agricultural Trade Strategy Report, as recommended elsewhere in this report.

Within 30 days of receiving such reports, the Secretary of Agriculture should be required to report to the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees, and the Chairmen of the House Foreign Affairs, Ways and Means, and Agriculture Committees, his views and recommendations in regard to such information furnished by other agencies.

In addition, agencies administering such programs should be required to coordinate their actions with those of the Secretary of Agriculture and subject their relevant programs and actions to approval by the Secretary of Agriculture.

To enhance the USDA leadership role in such matters, Congress or the President should establish within the U.S. Department of Agriculture an Office of Food Aid Policy. The Director of such office should serve under the leadership of the General Sales Manager; develop, in coordination with the Director of the Office of Agricultural Trade Policy Planning and Evaluation, a position recommended for establishment by the Commission, a comprehensive and coordinated market development-oriented USDA food aid and foreign economic assistance strategy; monitor the compliance of programs and policies of other agencies and related entities to ensure that such programs and policies are consistent with market development objectives; and serve as the Secretary of Agriculture's principal staff representative in deliberations of the staff working group, Development Coordination Committee Subcommittee on Food Aid.

Utilize Existing Programs

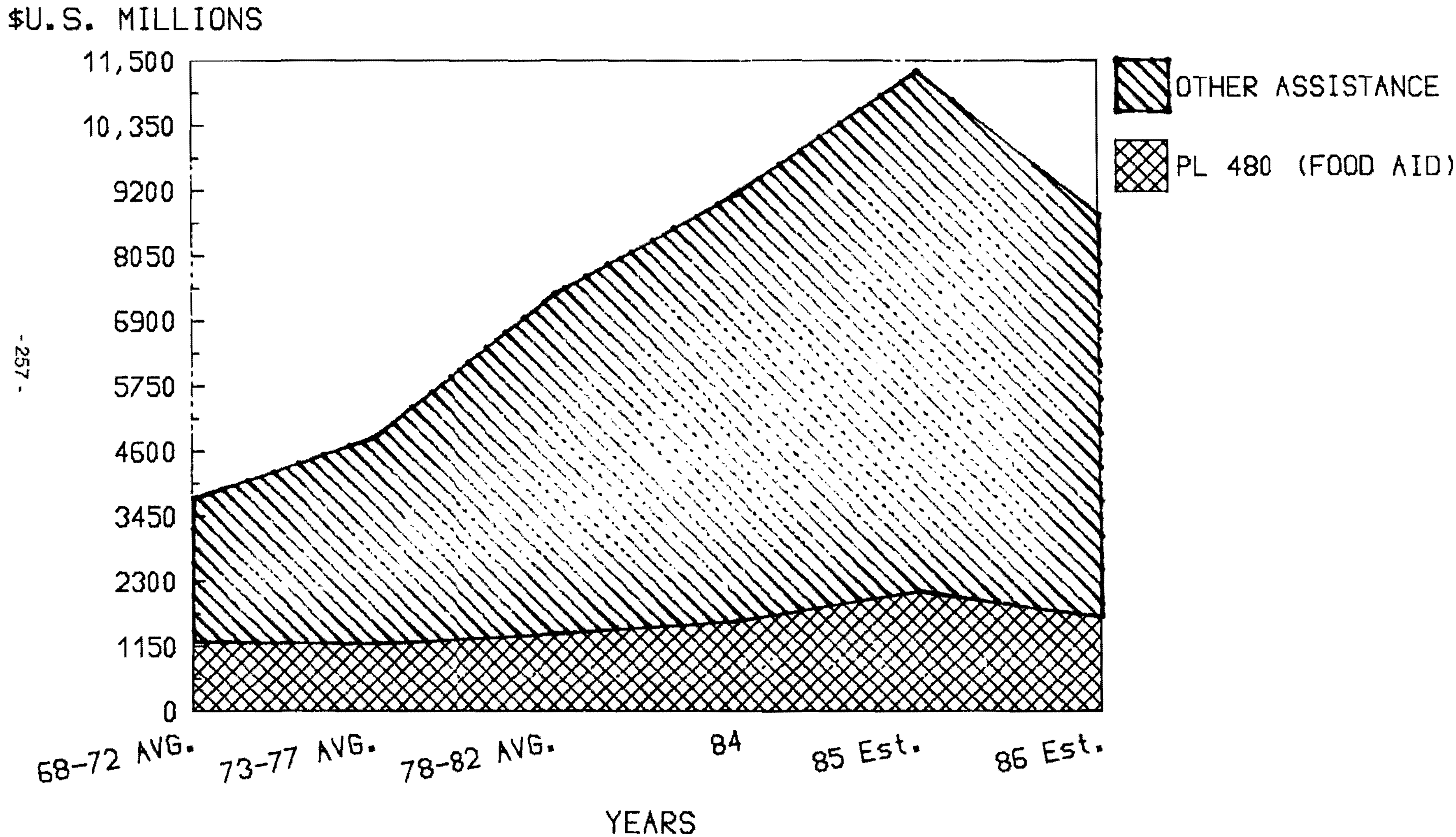
Congress should require an immediate expanded implementation of Section 1110 ("Food for Progress") and Section 1111 ("Sales for Foreign Currencies") of the 1985 Food Security Act. The Secretary of Agriculture should be assigned primary responsibility in the administration of these programs.

Consideration should be given to the programming of all commodities under P.L. 480.

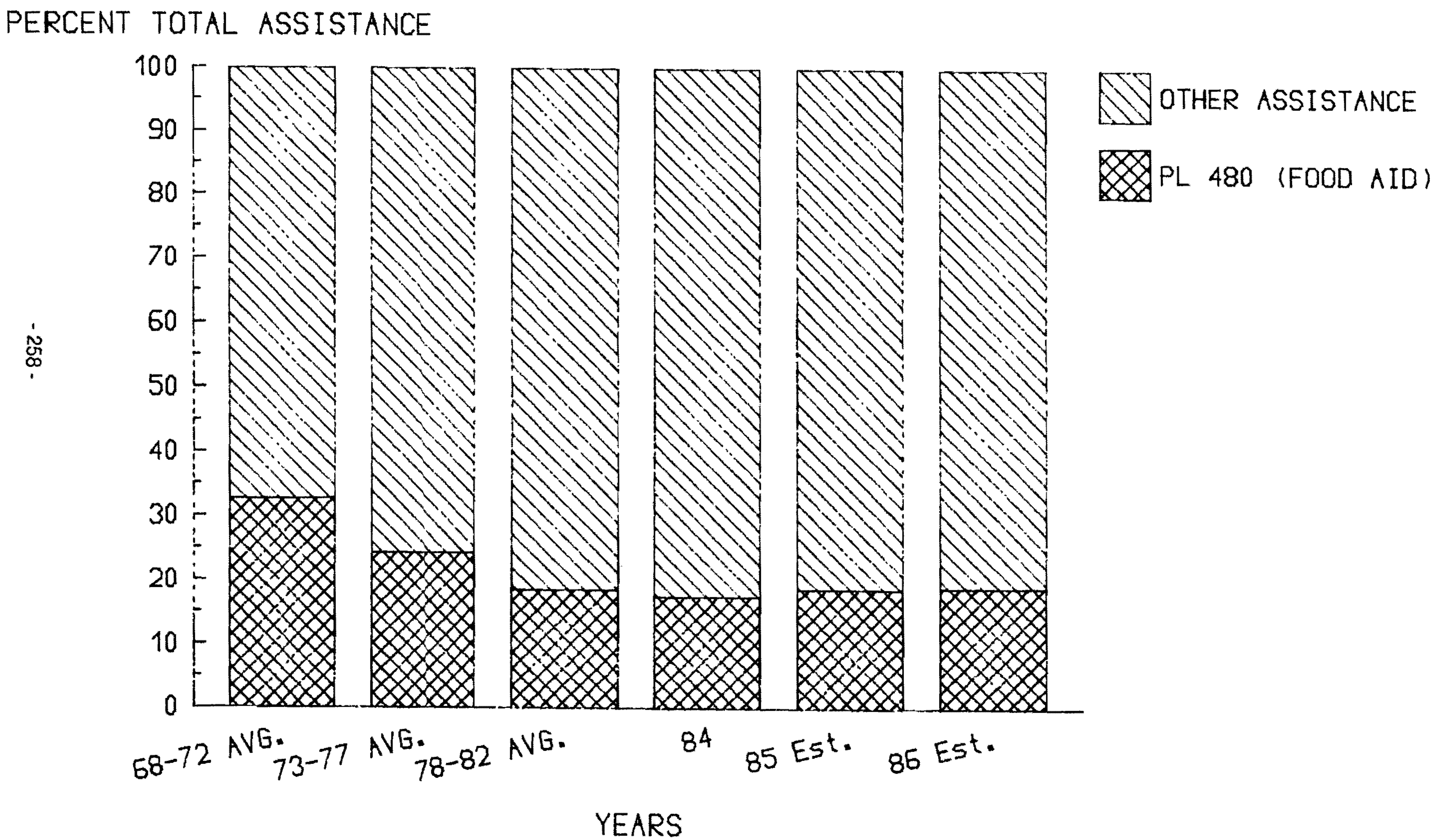
Safeguards

Congress should establish it to be the sense of Congress that funds of the federal government be denied to international pro-

FOOD AID AS COMPARED TO TOTAL FOREIGN ECONOMIC ASSISTANCE



FOOD AID AS A PERCENTAGE OF TOTAL FOREIGN ECONOMIC ASSISTANCE



FOREIGN ECONOMIC ASSISTANCE

(current dollars, millions)

	1968-72 (average)	1973-77 (average)	1978-82 (average)	1984	1985 (est.)	1986 (req.)
PL 480 (Food Aid)	1,220	1,182	1,362	1,590	2,107	1,651
Economic Support Fund (ESF)	548	1,154	2,254	3,146	4,213	2,824
Development Assistance (DA)	1,387	1,477	1,940	2,133	2,433	2,142
Contribution to Multilateral Banks (MDB'S)	341	735	1,292	1,324	1,548	1,347
Contribution to International Organizations & Programs	153	192	302	315	358	196
Miscellaneous Programs	83	126	207	612	636	584
TOTAL	3,732	4,866	7,357	9,120	11,295	8,744

Source: Report of the Commission on Security and Economic Assistance (Carlucci Commission) 1983; Agency for International Development Congressional Presentation FY86.

grams supported by the federal government that result in an expansion of trade of commodities and products that is directly competitive with U.S. agricultural commodity and product exports.

Foreign Agricultural Research and Technical Assistance

Agricultural research and technical assistance programs in support of agriculture overseas, such as those financed using funds of the U.S. Agency for International Development (USAID), and other organizations, including multilateral agencies to which the United States contributes, can, if properly managed, provide direct and indirect benefit to U.S. agriculture, through enhanced demand for U.S. farm products, growth in developing country income, and cooperative relationships between U.S. and foreign governments and development-oriented organizations and institutions. Too often, however, such programs are conceived, initiated, and executed without regard for their impact on U.S. agricultural interests.

The U.S. Agency for International Development and its client agencies and organizations, including U.S. and foreign colleges, universities, and other entities, should be subject to greater accountability in their conduct of foreign agricultural research and technical assistance. If federal funds are used for such purposes, such organizations, agencies and institutions should be required to subject their programs to approval by the Secretary of Agriculture. USAID proposes to spend $709.9 million in support of such activities in Fiscal Year 1987. In recognition of the tremendous exposure which our nation's taxpayers face in respect to such programs, it is only appropriate that the Secretary of Agriculture have a prominent role in the programming and spending of such funds.

COMMENTARY

U.S. agriculture has a major stake in the outcome of our nation's foreign economic assistance agenda. Its interests go beyond traditional concern about the adequacy of food aid programs to include significant questions regarding the impact of foreign economic assistance programs on our domestic agriculture, and the potential for better utilizing such programs to promote even greater sales of U.S. commodities and products overseas.

American agriculture has always been at the forefront of support for U.S. government efforts to improve the standards of life for the poorest of our world's populations. Indeed, since 1954 – and to a lesser extent, even before – foreign aid programs have been a vital factor in our nation's agricultural export performance. Such programs have always had a variety of roles to perform, not least their service of humanitarian objective. Nevertheless, in recent years, increasing attention has been given to their adequacy in terms of the promotion of our nation's agricultural exports.

The development of Third-World economies is an important preoccupation of U.S. agriculture. These are our growth markets. On the other hand, U.S. overseas development policy should not be crafted in such a way as to undermine the opportunities that exist for U.S. agriculture in the markets of the world, particularly at this time of hardship in rural America. It is in this spirit that the Commission offers its recommendations in respect to the appropriate function of U.S. foreign economic assistance, as it pertains to the ultimate performance of U.S. agriculture in the markets of the world.

In general, **the Commission endorses maintenance of current levels of economic assistance to developing nations.** It strongly supports increasing the food aid component of such assistance. **However, it believes that there should be a much more significant emphasis on the use of such programs to stimulate demand expansion and market development for agricultural commodities and products produced in the United States.** Food aid and other overseas foreign economic assistance programs must receive greater scrutiny as to their effect on U.S. agriculture through a requirement that such programs do not run counter to the goal of expanding U.S. agricultural export sales. **In addition, the Secretary of Agriculture, as representative of the U.S. agricultural sector, should be accorded greater authority in respect to the execution of the overall U.S. foreign economic assis-**

tance program, particularly in regard to those programs of other agencies of the federal government that involve food aid and agriculturally-related economic assistance.

One might wonder why there is a need for the Commission to concern itself with the market development objective of foreign economic assistance. After all, U.S. foreign aid programs have been on the books for 30 or 40 years. Market development has always been a legislated objective, along with humanitarian purposes, foreign economic development, and consistency with foreign policy. Such programs are familiar to the whole world. Yet things have changed in recent years.

The United States is no longer the economic giant it once was. Food aid and foreign economic assistance programs can no longer be divorced from their utility in terms of promoting trade opportunities for U.S. agriculture. These programs represent a substantial American taxpayer investment. It is time that they were better used to maximize U.S. economic advantage. Food aid programs need strengthening and market development objectives of these and other foreign economic assistance programs need greater emphasis, with appropriate attention to the current needs of U.S. agriculture.

U.S. FOOD AID POLICY INSTRUMENTS

P.L. 480 Operations and Activities

Food aid under P.L. 480 is provided directly to friendly governments on a credit basis (Title I) for sale in commercial markets; or, in the case of Title II, on a grant basis. Title II is provided through private voluntary agencies and the World Food Program, (WFP) as well as through government-to-government arrangements for a variety of programs to benefit needy people directly. Food aid is provided only when adequate storage facilities are available and when distribution of the food aid will not result in a substantial disincentive to the recipient country's own production or interfere with its food marketing system. These safeguards are essential because the potential for increasing food production exists in many developing countries where most of the population is dependent upon agriculture and related activities.

Title I and Title III

Title I of the law authorizes concessional credits on a year-by- year basis for sales of U.S. farm products to developing countries. These credits are repayable in dollars, at concessional interest rates of not less than 2 percent during the grace period and 3 percent thereafter. The period of repayment is 20-40 years. For the longer repayment periods, the grace period on principal repayment is up to 10 years. In addition, many agreements require an initial cash down payment of 5 percent. Recipient countries must agree to undertake self-help measures aimed, where appropriate, at expanding food production and improving food storage and distribution facilities. A technical concern in Title I is that concessional sales of U.S. farm products do not replace commercial exports from the United States or other friendly countries.

To provide a more flexible response to severe unforseen food emergencies, the President can authorize in specific cases the financing of ocean freight for P.L. 480 Title I commodities. In addition, the same terms can apply to the financing of Title I commodities themselves. This has proved useful in more effectively meeting the needs of some of the drought-stricken countries in Africa that also received emergency Title II food allocations.

Local currency proceeds from the sale of food within the recipient country finance self-help measures and other development projects to stimulate equitable economic growth. Such resources can support a variety of programs such as increasing the availability of farm credits, stabilizing price fluctuations of agricultural commodities, improving on-farm storage and distribution facilities, and expanding irrigation infrastructure. Wherever possible, efforts are made to use these self-help measures and local currency generations to meet recipient country priorities and to complement activities financed with other donor resources. Recent AID guidance re-emphasizes the use of such local currency financing to stimulate private enterprise development under existing authorities.

In addition, new legislation in the Food Security Act of 1985 encourages the programming of locally generated currencies for private enterprise development in an amount

equivalent to 25 percent of the value of Title I sales agreements. Of this amount, no less than 10 percent of the aggregate value of Title I agreements must be locally generated currencies made available to financial intermediaries for development loans to the private sector. This legislation is significant in placing major new emphasis on private enterprise development in Title I. Fiscal Year 1986 will be the first year of implementation.

AID's policy encourages decreased government controls on agriculture and the removal of impediments to private sector activities. Thus, AID has emphasized the marketing of Title I commodities through the private sector rather than through government parastatal agencies.

Food for Development programs, **authorized under Title III but financed under Title I, offer special incentives to low-income countries.** They are encouraged to undertake additional development programs which, in many cases, are related to changes in policies designed to improve the quality of life of the poor, particularly in rural areas. Title III agreements include supply commitments of up to five years subject to annual review and the availability of commodities and appropriations. Full "loan forgiveness" may be included when commodities or the local currencies equivalent to the dollar sales value of the commodities purchased are used for agreed development purposes.

For example, Haiti has a three-year Title II Food for Development program which addresses both the crisis in that country's agricultural sector, as well as developmental needs in public health and rural infrastructure. The Haitian government has committed itself to major policy changes involving taxes, government reorganization, to enhance services, increased availability of agricultural credit, and other related measures. Local currencies generated under the Title III program will be used for activities such as irrigation and soil conservation, rural credit services, animal health and husbandry, farming research and extension, community health outreach, community water systems and farm-to-market roads.

For Fiscal Year 1987, a Title I program level of $944.4 million is proposed. Repayments and reflows from prior years of $380 million are expected. On the basis of prices projected by the Department of Agriculture and the mix of commodities tentatively programmed, this amount will finance shipments of about 5.2 million tons; in Fiscal Year 1985, final sales registered were 5.6 million tons at a program level of $1,099.7 million.

At least 75 percent of the volume of Title I food aid must be allocated initially to countries eligible for assistance from the International Development Association – currently those with per capita incomes at or below $790 per year. Eligibility for Food for Development (Title III) programs is limited entirely to this group of countries. The value of total commodities requested in Fiscal Year 1987 is $845 million, which includes $633 million for IDA eligible countries.

Title II

Title II of Public Law 480 authorizes donations of food on behalf of the people of the United States to meet famine or other urgent relief requirements, to combat malnutrition (especially in children), and to promote economic and community development. Title II programs are designed to supplement and reinforce other developmental and nutritional activities, and are conducted within a framework of increasing local management and funding. For Fiscal Year 1987, a program of $600 million is proposed, including $205.9 million for ocean transportation and overland delivery to landlocked countries. On the basis of projected prices, this amount should be adequate to finance delivery of the legislatively mandated 1.9 million metric tons of food. The legislated submini- mum level for development activities of voluntary agencies and international organizations for Fiscal Year 1987 is now 1.425 million metric tons. The programming of new developmental initiatives will allow compliance at this level. The Food Security Act also requires that processed commodities comprise at least 75 percent of the tonnage in nonemergency developmental activities. The proposed commodity mix for Fiscal Year 1987 will also comply with this mandate. In Fiscal Year 1986, it is planned that a program valued at $754 million will provide over 2 million metric tons of food.

Africa Drought Relief

Aiding victims of the African drought was a major concern of Title II programs in Fiscal Year 1985 and continues to play a significant role in Fiscal Year 1986. Almost 1.5 million metric tons of Title II food aid were programmed for African famine victims in Fiscal Year 1985 at a cost of nearly $590 million (commodity and transport costs). The drought relief effort made use of $400 million, of which $384 million came from new budget authority provided by Congress in 1985 in a supplemental appropriation, and $16 million from prior year carry-in. These supplemental funds provided over 840,000 additional metric tons of food aid to combat drought and famine in Africa. Approximately $268 million of these supplemental funds were obligated in Fiscal Year 1985 and $132 million have been obligated in Fiscal Year 1986.

In the first quarter of Fiscal Year 1986 alone, the U.S. government provided nearly 304,000 tons of food at a total cost of over $125 million. Given the magnitude of the disaster, other funding authorities were also tapped. In Fiscal Year 1985, over 87,000 metric tons of surplus commodities under Section 416 of the Agriculture Act of 1949, as well as 253,000 tons of wheat products under the Food Security Reserve, were provided. These commodities were donated principally to such severely-affected countries as Ethiopia, Sudan, Chad, Niger, Burkina Faso, and Mali. The effects of the 1984-85 drought will continue to be felt considerably beyond the current year in the most severely affected African countries. In Fiscal Year 1987 we will continue to be alert to the need for food aid in relief and rehabilitation programs in Africa.

In addition to food, expanded legislative authority allowed the United States also to provide internal transport funds to move emergency food under Title II. During Fiscal Year 1985, nearly $90 million was expended in drought-stricken African countries.

Food aid for Ethiopia was a major component of the 1985 drought relief effort. The United States participated with other donors in a massive emergency program to feed an estimated 7.9 million persons at risk of starvation. Of the more than 1.2 million metric tons committed by all donors, the U.S. provided over 430,000 metric tons (35 percent) valued at nearly $190 million to meet the needs of 3.6 million recipients. Food from all donors enabled PVO's, international organizations, and the Ethiopian government to reach an estimated 90 percent of those at risk during the preharvest period.

Recipient countries may have a variety of P.L. 480 programs being conducted simultaneously. In Bangladesh, for example, P.L. 480 Title II foods are used by CARE and the World Food Program to support Food for Work (FFW) activities. Each year over 200,000 metric tons of wheat are used to provide food to over 1.5 million laborers and their families – over eight million people in total – engaged in the construction of roads and embankments. Through FFW, over 3,000 projects have been implemented. A total of 9,000 miles of road have been upgraded in these projects. A 1984 AID evaluation demonstrated that Food for Work has stimulated substantial economic and social development throughout the rural areas in Bangladesh. At the same time, Bangladesh also has a successful and innovative Title III program focused on consumer price policy reform.

Food For Progress

The Food Security Act of 1985 established a new food aid program, Food for Progress. This program will emphasize the use of America agricultural abundance to support countries which have made commitments to agricultural policy reform during a period of economic hardship, including (1) adequate price levels for agricultural production, based on market principles, and (2) improved rural infrastructure and private sector involvement. This new approach will seek to mitigate the recurrence of tragedies such as Ethiopia in future years. It will expand free enterprise elements of the economies of developing countries through changes in commodity pricing, marketing, import availability, distribution and private sector involvement. This program will be carried out through loans and grants, drawing on resources made available under Title I and Section 416 of the Agriculture Act of 1949.

Supporting Programs

AID dollar support funded through the Development Assistance accounts is a small but essential part of the Agency's effort to insure

PL 480 Title I/III

FY 1987 Country and Commodity Allocations a/

Country	TOTAL 1985			TOTAL 1986			TOTAL 1987			WHEAT		WHEAT FLOUR			RICE		FEEDGRAINS		VEGOILS		TALLOW		TOTAL		COTTON b/		UNDESIGNATED	
$790 or less Per Capita GNP	MTGE (000)	$ Mil	Of Which Title III	MTGE (000)	$ Mil	Of Which Title III	MTGE (000)	$ Mil	Of Which Title III	MT (000)	$ Mil	MT (000)	MTGE (000)	$ Mil	MT (000)	$ Mil	MT (000)	$ Mil	MT (000)	$ Mil	MT (000)	$ Mil	MTGE (000)	$ Mil	MT (000)	$ Mil	MT (000)	$ Mil
Bangladesh	491	94.5	(94.5)	366	70.0	(70.0)	357	64.0	(64.0)	318	41.0				14	4.0			19	10.0			351	55.0	6	9.0		
Bolivia	150	20.0		152	20.0	(20.0)	155	20.0	(20.0)	155	20.0												155	20.0				
Egypt	1,535	225.0		1,557	213.0		1,400	185.0		930	120.0	353	470	65.0									1,400	185.0				
El Salvador	202	49.0		227	46.0		241	45.0		147	19.0								15	8.0	18	8.0	180	35.0			61 -	10.0
Ghana	12	5.9		11	8.0		20	8.0							11	3.0							11	3.0	3	4.0	6	1.0
Guinea	20	6.0		20	6.0		29	8.0							29	8.0							29	8.0				
Haiti	85	15.0		120	18.0	(18.0)	122	18.0	(18.0)	116	15.0								6	3.0			122	18.0				
Honduras	104	15.0	(15.0)	92	15.0		109	14.0		109	14.0												109	14.0				
Indonesia	259	40.0	(2.5)	202	30.0		116	15.0		116	15.0												116	15.0				
Kenya	82	10.0		67	10.0		62	8.0		62	8.0												62	8.0				
Liberia	19	6.0		34	11.0		36	10.0							36	10.0							36	10.0				
Madagascar	42	11.0		20	8.0		22	8.0							14	4.0			7	4.0			22	8.0				
Malidive Island	8	1.5																										
Morocco	420	55.0		292	40.0		310	40.0		310	40.0												310	40.0				
Mozambique	83	17.0		50	7.9		70	10.0		31	4.0				11	3.0	28	3.0					70	10.0				
Pakistan	75	59.0		96	50.0		94	50.0											94	50.0			94	50.0				
Philippines	154	40.0		222	35.0																							
Senegal				18	5.5		18	5.0							18	5.0							18	5.0				
Sierra Leone	21	4.0		20	4.0		23	4.0		16	2.0				7	2.0							23	4.0				
Somalia	70	20.0		48	16.7		85	20.0		23	3.0	22	29	4.0	18	5.0			15	8.0			85	20.0				
Sri Lanka	175	26.0		193	26.0		147	19.0		147	19.0												147	19.0				
Sudan	457	64.5		315	45.0	(20.0)	378	50.0	(20.0)	248	32.0	98	130	18.0									378	50.0				
Yemen	51	12.0		13	5.0		18	5.0							18	5.0							18	5.0				
Zaire	99	20.0		105	20.0		102	17.0		93	12.0												93	12.0	3	4.0	6	1.0
Zambia	47	10.0		44	10.0		48	10.0		39	5.0								9	5.0			48	10.0				
Zimbabwe	56	8.0																										
SUBTOTAL	4,717	834.4	(112.0)	4,284	720.1	(128.0)	3,962	633.0	(122.0)	2,860	369.0	473	629	87.0	176	49.0	28	3.0	165	88.0	18	8.0	3,877	604.0	12	17.0	73	12.0

a/ PL 480 Title I/III only; levels do not include Food for Progress.

b/ The cotton is shown as Metric Tons, the conversion factor used is: 4.592917 Bales = 1 Metric Tons

PL 480 Title I/III

FY 1987 Country and Commodity Allocations a/

Country $791 or more Per Capita GNP	TOTAL 1985 MT (000)	TOTAL 1985 $ Mil	TOTAL 1985 Of Which Title III	TOTAL 1986 MT (000)	TOTAL 1986 $ Mil	TOTAL 1986 Of Which Title III	TOTAL 1987 MT (000)	TOTAL 1987 $ Mil	TOTAL 1987 Of Which Title III
Costa Rica	142	21.4		145	23.0		143	18.0	
Dominican Rep	150	40.5		114	30.0		195	30.0	
Ecuador	112	15.0		38	5.0				
Guatemala	82	19.7		92	14.0		114	19.0	
Jamaica	234	40.0		180	30.0		211	30.0	
Peru	150	25.0		111	20.0		54	10.0	
Tunisia	49	5.0		19	2.5		39	5.0	
SUBTOTAL	919	166.6	(0.0)	699	124.5	(0.0)	756	112.0	(0.0)
TOTAL ALLOCATED (%Title III)	5,636	1,001.0	(112.0) 11.2%	4,983	844.6	(128.0) 15.2%	4,718	745.0	(122.0) 16.4%
RESERVE	0.0	0.0		252	43.9		610	100.0	
TOTAL COMMODITY ALLOCATIONS	5,636	1,001.0	(112.0)	5,235	888.5	(128.0)	5,328	845.0	(122.0)
INITIAL PAYMENT		(21.2)			(18.0)			(18.0)	
OCEAN FREIGHT DIFFERENTIAL		98.3			104.4			117.4	
OCEAN FREIGHT FINANCING		21.6			10.8			0.0	
PROGRAM LEVEL	5,636	1,099.7		5,235	985.7		5,328	944.4	

Country	WHEAT MT (000)	WHEAT $ Mil	WHEAT FLOUR MT (000)	WHEAT FLOUR MTGE (000)	WHEAT FLOUR $ Mil	RICE MT (000)	RICE $ Mil	FEEDGRAINS MT (000)	FEEDGRAINS $ Mil	VEGOILS MT (000)	VEGOILS $ Mil	TALLOW MT (000)	TALLOW $ Mil	TOTAL MTGE (000)	TOTAL $ Mil	COTTON b/ MT (000)	COTTON b/ $ Mil	UNDESIGNATED MT (000)	UNDESIGNATED $ Mil
Costa Rica	124	16.0						19	2.0					143	18.0				
Dominican Rep	93	12.0						85	9.0	17	9.0			195	30.0				
Ecuador																			
Guatemala	101	13.0								6	3.0	7	3.0	114	19.0				
Jamaica	101	13.0				21	6.0	85	9.0	4	2.0			211	30.0				
Peru	39	5.0				11	3.0			4	2.0			54	10.0				
Tunisia	39	5.0												39	5.0				
SUBTOTAL	497	64.0	0	0	0.0	32	9.0	189	20.0	31	16.0	7	3.0	756	112.0	0	0.0	0	0.0
TOTAL ALLOCATED	3,357	433.0	473	629	87.0	208	58.0	217	23.0	196	104.0	25	11.0	4,633	716.0	12	17.0	73	12.0

NOTE: FY 1986 Illustrative tonnage levels are included for Undesignated commodity allocations will be in accordance with the Foreign Assistance Act of 1961, as amended and the Agricultural Trade Development and Assistance Act of 1954, as amended, including Section 401 of the Act. Illustrative Reserve tonnage is included using an average commodity price.

a/ PL 480 Title I/III only; levels do not include Food for Progress.

b/ The cotton is shown as Metric Tons, the conversion factor used is: 4.592917 Bales = 1 Metric Ton

FY 1987
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
($000)

Region/Country	FY 85 Actual Program Levels Total	Volags	WFP	GTG	FY 86 Estimated Program Levels Total	Volags	WFP	GTG	FY 87 Proposed Program Levels Total	Volags	WFP	GTG
EUROPE - TOTAL	13,756	13,756			2,878	2,878						
Poland	13,756	13,756			2,878	2,878						
ASIA/NEAR EAST - TOTAL	220,970	156,544	64,426		192,903	125,674	67,229		163,409	121,346	42,063	
Algeria	271	271										
Bangladesh	35,128	18,968	16,160		37,996	16,799	21,197		37,719	16,323	21,396	
Bhutan	115		115		169		169		166		166	
Egypt	13,208	13,208			6,855	6,855			4,910	4,910		
Gaza	679	679			640	640			620	620		
India	102,250	90,767	11,483		91,944	80,377	11,567		91,215	80,459	10,756	
Indonesia	6,446	6,446			3,988	3,769	219		4,348	3,989	359	
Kampuchea	780		780		649		649					
Lebanon	480		480		1,350		1,350					
Morocco	10,056	8,794	1,262		5,868	5,564	304		4,468	4,163	305	
Nepal	2,216		2,216		1,238		1,238		853		853	
Pakistan	30,137		30,137		28,952		28,952		6,689		6,689	
Philippines	11,543	11,543			7,775	7,723	52		7,732	7,682	50	
Sri Lanka	5,648	3,855	1,793		4,278	2,746	1,532		3,518	2,029	1,489	
Tunisia	640	640										
West Bank	1,373	1,373			1,201	1,201			1,171	1,171		
LATIN AMERICA - TOTAL	57,410	38,200	17,120	2,090	47,583	34,771	7,931	4,881	46,781	36,131	5,364	5,286
Bolivia	9,496	8,654	842		9,522	8,024	994	504	9,250	7,883	973	394
Costa Rica	232		232		220		220					
Dominican Rep.	1,907	1,907			1,251	1,048	203		1,797	1,602	195	
Ecuador	629	629			1,604	561	1,043		1,230	495	735	
El Salvador	8,840	1,628	5,202	2,010	7,850	1,917	3,100	2,833	9,400	2,833	1,675	4,892
Guatemala	8,245	4,396	3,849		4,804	4,437	367		5,057	4,690	367	
Guyana	80			80	284			284				
Haiti	8,147	7,595	552		7,194	7,079	115		7,170	7,056	114	
Honduras	4,406	3,557	849		4,329	3,312	1,017		4,351	3,758	593	
Jamaica	343	55	288		1,754	386	108	1,260	106		106	
Mexico	1,249		1,249									
Panama	80		80		88		88		87		87	
Paraguay					329		329		323		323	
Peru	13,734	9,779	3,955		8,346	8,007	339		8,002	7,814	188	
St. Kitts					2		2		2		2	
St. Lucia	22		22		6		6		6		6	

FY 1987
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
($000)

Region/Country	FY 85 Actual Program Levels Total	Volags	WFP	GTG	FY 86 Estimated Program Levels Total	Volags	WFP	GTG	FY 87 Proposed Program Levels Total	Volags	WFP	GTG
AFRICA - TOTAL	384,873	149,713	54,390	180,770	145,072	95,861	35,543	13,668	92,080	54,994	27,573	9,513
Angola	4,212	2,030	158	2,024	2,730			2,730				
Benin	1,432	770	662		1,323	823	500		1,894	1,009	885	
Botswana	11,681		10,271	1,410	4,352		4,352		4,256		4,256	
Burkina Faso	17,644	13,212	1,023	3,409	7,432	6,154	1,278		8,286	6,366	1,480	440
Burundi	1,863	1,677	186		1,912	1,581	331		2,225	1,708	517	
Cameroon	3,750		585	3,165	994		994		1,192		1,192	
Cape Verde	1,533	9	799	725	1,847		487	1,360	2,277		567	1,710
C.A.R.	359		359		533		533		706		706	
Chad	19,897	6,281	11,736	1,880	4,213	1,255	2,958		3,084	1,002	2,082	
Comoro Is.	213		213		260		260		590		590	
Congo	155		155		360		360		247		247	
Djibouti	1,450	1,450										
Eq. Guinea	372		372		512		512		603		603	
Ethiopia	65,801	52,938	3,429	9,434	51,001	51,001			3,447	3,447		
Ethiopian Refugee	21,129	19,551	1,578									
Gambia	2,599	739		1,860	1,009	832	177		3,414	810	271	2,333
Ghana	12,478	7,374	2,252	2,852	11,305	6,686	4,619		9,647	7,295	2,352	
Guinea	25		25		24		24		36		36	
Guinea Bissau	643		247	396	375		375		1,491		321	1,170
Ivory Coast					126		126		168		168	
Kenya	23,104	5,696		17,408	2,640	2,640			8,107	8,057	50	
Lesotho	7,982	5,331	1,703	948	7,263	3,829	3,434		7,175	3,620	3,555	
Madagascar	1,716	1,575	141		1,769	1,769			2,460	2,460		
Malawi	233		233		351		351		299		299	
Mali	19,437	1,713	3,256	14,468	7,024	59	1,946	5,019	3,200		1,800	1,400
Mauritania	7,421	2,420	519	4,482	2,679	2,034	645		4,585	1,910	215	2,460
Mauritius					185		185		133		133	
Mozambique	8,487	2,242	116	6,129	8,969	4,410		4,559	905		905	
Niger	20,908	3,397	1,004	16,507	2,142		2,142		926		926	
Rwanda	5,825	4,223	113	1,489	4,658	3,967	691		5,525	5,057	468	
Sao Tome	99		99		598		598		575		575	
Senegal	6,820	4,812	159	1,849	3,874	3,443	431		3,261	2,831	430	
Seychelles	255	255			210	210			204	204		
Sierra Leone	1,640	1,578	62		1,143	1,083	60		1,130	1,074	56	
Somalia	11,672		11,672		5,957		5,957		370		370	
Sudan	89,771	391	264	89,116	879	879			3,731	3,731		
Tanzania	7,511	6,099	242	1,170	1,436	1,223	213		1,839	1,628	211	
Togo	2,507	1,778	729		2,308	1,858	450		3,411	2,660	751	
Uganda	28		28		495		495		496		496	
Zaire	640	591		49	125	125			125	125		
Zambia					59		59		60		60	
Zimbabwe	1,581	1,581										

FY 1987
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
($000)

Region/Country	FY 85 Actual Program Levels				FY 86 Estimated Program Levels				FY 87 Proposed Program Levels			
	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG
Subtotal - Regions	677,009	358,213	107,249	182,860	388,436	259,184	110,703	18,549	302,270	212,471	75,000	14,799
Regular	356,086	242,138	107,249	6,699	316,395	204,297	102,857	9,241	302,270	212,471	75,000	14,799
Emergency	320,923	116,075	0	176,161	72,041	54,887	7,846	9,308				
Europe	13,756	13,756	---	---	2,878	2,878	---	---	---	---	---	---
Regular	---	---	---	---	---	---	---	---	---	---	---	---
Emergency	13,756	13,756	---	---	2,878	2,878	---	---	---	---	---	---
Asia/Near East	220,970	156,544	64,426	---	192,903	125,674	67,229	---	163,409	121,346	42,063	---
Regular	220,699	156,273	64,426	---	192,903	125,674	67,229	---	163,409	121,346	42,063	---
Emergency	271	271	---	---	---	---	---	---	---	---	---	---
Latin America	57,410	38,200	17,120	2,090	47,583	34,771	7,931	4,881	46,781	36,131	5,364	5,286
Regular	51,202	37,994	11,686	1,522	45,324	34,771	5,672	4,881	46,781	36,131	5,364	5,286
Emergency	6,208	206	5,434	568	2,259	---	2,259	---	---	---	---	---
Africa	384,873	149,713	54,390	180,770	145,072	95,861	35,543	13,668	92,080	54,994	27,573	9,513
Regular	84,185	47,871	31,137	5,177	78,168	43,852	29,956	4,360	92,080	54,994	27,573	9,513
Emergency	300,688	101,842	23,253	175,593	66,904	52,009	5,587	9,308	---	---	---	---
Developmental Initiatives									50,069			
Reserve					79,184				63,042			
Stock Adjustment	(59,709)	(59,709)			(29,220)	(29,220)			(21,247)	(21,247)		
Transport Costs	450,769				315,581				205,866			
PROGRAM TOTAL	1,068,069				753,981				600,000			

N.B. All country/regional levels reflect commodity costs only. FY 1985 Program Level includes a transfer of $90 million from PL 480 Title I, $60 million of the CY 1984 $150 million Africa Supplemental and $268.1 of obligations from the CY 1985 $400 million Africa Supplemental. FY 1986 Program Level includes $131.9 million of obligations from the CY 1985 $400 million Africa Supplemental. The final Program Level for FY 1986 reflects a Gramm-Rudman-Hollings reduction of $27.95 million.

FY 1987
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
(Metric Tons)

	FY 85 Actual Program Levels				FY 86 Estimated Program Levels				FY 87 Proposed Program Levels			
Region/Country	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG
EUROPE - TOTAL	40,872	40,872			4,943	4,943						
Poland	40,872	40,872			4,943	4,943						
ASIA/NEAR EAST - TOTAL	939,272	603,445	335,827		926,907	528,214	398,693		733,540	498,765	234,775	
Algeria	1,000	1,000										
Bangladesh	221,200	120,000	101,200		257,833	120,000	137,833		269,340	120,000	149,340	
Bhutan	500		500		621		621		621		621	
Egypt	44,423	44,423			21,107	21,107			14,934	14,934		
Gaza	2,457	2,457			2,627	2,627			2,627	2,627		
India	337,356	301,875	35,481		324,191	282,925	41,266		300,119	270,112	30,007	
Indonesia	32,166	32,166			20,653	20,383	270		22,414	21,644	770	
Kampuchea	800		800		800		800					
Lebanon	1,335		1,335		4,515		4,515					
Morocco	39,348	31,364	7,984		26,818	26,443	375		18,123	17,748	375	
Nepal	7,024		7,024		4,982		4,982		3,632		3,632	
Pakistan	170,161		170,161		196,817		196,817		38,816		38,816	
Philippines	48,092	48,092			38,566	38,296	270		38,566	38,296	270	
Sri Lanka	25,353	14,011	11,342		22,414	11,470	10,944		19,386	8,442	10,944	
Tunisia	3,243	3,243										
West Bank	4,814	4,814			4,963	4,963			4,962	4,962		
LATIN AMERICA - TOTAL	213,202	138,461	65,137	9,604	213,048	150,902	36,882	25,264	204,148	154,467	24,506	25,175
Bolivia	32,702	29,941	2,761		38,105	31,932	4,253	1,920	36,645	30,869	4,253	1,523
Costa Rica	581		581		592		592					
Dominican Rep.	7,749	7,749			6,422	5,866	556		8,087	7,531	556	
Ecuador	1,719	1,719			5,219	1,719	3,500		4,042	1,542	2,500	
El Salvador	38,412	6,105	22,921	9,386	36,885	7,193	16,352	13,340	42,828	11,125	8,051	23,652
Guatemala	32,038	17,421	14,617		23,310	20,090	3,220		24,141	20,921	3,220	
Guyana	218			218	1,004			1,004				
Haiti	32,180	30,173	2,007		32,294	31,830	464		32,356	31,892	464	
Honduras	15,725	11,954	3,771		17,168	12,747	4,421		16,500	14,562	1,938	
Jamaica	1,703	500	1,203		13,151	3,500	651	9,000	651		651	
Mexico	4,565		4,565									
Panama	323		323		445		445		445		445	
Paraguay					1,180		1,180		1,180		1,180	
Peru	45,203	32,899	12,304		37,247	36,025	1,222		37,247	36,025	1,222	
St. Kitts					6		6		6		6	
St. Lucia	84		84		20		20		20		20	

FY 1987
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
(Metric Tons)

Region/Country	FY 85 Actual Program Levels				FY 86 Estimated Program Levels				FY 87 Proposed Program Levels			
	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG
AFRICA - TOTAL	1,790,992	503,224	192,837	1,094,931	588,132	373,953	132,816	81,363	352,161	203,071	90,757	58,333
Angola	13,786	6,382	387	7,017	12,240			12,240				
Benin	4,907	2,400	2,507		5,175	2,940	2,235		5,638	3,603	2,035	
Botswana	42,636		38,636	4,000	15,963		15,963		13,363		13,363	
Burkina Faso	72,780	46,350	3,430	23,000	29,233	24,428	4,805		35,454	25,649	5,805	4,000
Burundi	5,767	5,235	532		6,924	5,565	1,359		7,747	6,038	1,709	
Cameroon	9,526		886	8,640	2,520		2,520		3,470		3,470	
Cape Verde	8,883	33	3,850	5,000	6,008		1,475	4,533	16,475		1,475	15,000
C.A.R.	1,271		1,271		2,400		2,400		2,250		2,250	
Chad	73,717	23,330	42,887	7,500	17,216	6,176	11,040		13,278	5,039	8,239	
Comoro Is.	863		863		1,076		1,076		2,276		2,276	
Congo	500		500		980		980		730		730	
Djibouti	3,571	3,571										
Eq. Guinea	1,332		1,332		1,915		1,915		2,994		2,994	
Ethiopia	214,181	154,208	9,973	50,000	206,523	206,523			12,000	12,000		
Ethiopian Refugee	88,239	86,619	1,620									
Gambia	8,037	2,037		6,000	3,271	2,546	725		12,004	2,546	1,125	8,333
Ghana	37,601	21,096	7,303	9,202	41,166	22,141	19,025		31,835	24,431	7,404	
Guinea	80		80		80		80		130		130	
Guinea Bissau	3,666		666	3,000	1,179		1,179		6,799		799	6,000
Ivory Coast					420		420		600		600	
Kenya	139,588	19,588		120,000	9,655	9,655			23,545	23,484	61	
Lesotho	31,759	17,922	7,837	6,000	25,852	14,952	10,900		25,826	14,326	11,500	
Madagascar	4,877	4,423	454		5,496	5,496			7,696	7,696		
Malawi	665		665		1,325		1,325		1,125		1,125	
Mali	84,144	5,439	13,405	65,300	32,295	280	7,425	24,590	11,250		6,250	5,000
Mauritania	42,683	9,413	3,270	30,000	9,040	7,971	1,069		28,093	7,225	868	20,000
Mauritius					700		700		500		500	
Mozambique	56,620	14,145	225	42,250	55,418	15,418		40,000	1,300		1,300	
Niger	138,646	7,898	5,748	125,000	5,382		5,382		3,881		3,881	
Rwanda	20,212	13,305	116	6,791	15,849	13,749	2,100		19,300	18,100	1,200	
Sao Tome	369		369		1,554		1,554		1,554		1,554	
Senegal	35,650	20,587	1,063	14,000	18,709	16,228	2,481		16,016	13,535	2,481	
Seychelles	829	829			703	703			712	712		
Sierra Leone	5,092	4,892	200		4,100	3,900	200		4,100	3,900	200	
Somalia	37,239		37,239		27,461		27,461		461		461	
Sudan	563,980	1,370	1,744	560,866	3,060	3,060			20,829	20,829		
Tanzania	19,965	18,435	330	1,200	5,724	4,534	1,190		6,257	5,067	1,190	
Togo	8,841	5,482	3,359		8,663	6,588	2,075		9,816	7,791	2,025	
Uganda	90		90		1,533		1,533		1,533		1,533	
Zaire	4,266	4,101		165	1,100	1,100			1,100	1,100		
Zambia					224		224		224		224	
Zimbabwe	4,134	4,134										

FY 1987
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
(Metric Tons)

Region/Country	FY 85 Actual Program Levels Total	Volags	WFP	GTG	FY 86 Estimated Program Levels Total	Volags	WFP	GTG	FY 87 Proposed Program Levels Total	Volags	WFP	GTG
Subtotal - Regions	2,984,338	1,286,002	593,801	1,104,535	1,733,030	1,058,012	568,391	106,627	1,289,849	856,303	350,038	83,508
Regular	1,430,143	896,676	497,209	36,258	1,411,894	843,022	529,075	39,797	1,289,849	856,303	350,038	83,508
Emergency	1,554,195	389,326	96,592	1,068,277	321,136	214,990	39,317	66,830	---	---	---	---
Europe	40,872	40,872	---	---	4,943	4,943	---	---	---	---	---	---
Regular	---	---	---	---	---	---	---	---	---	---	---	---
Emergency	40,872	40,872	---	---	4,943	4,943	---	---	---	---	---	---
Africa	1,790,992	503,224	192,837	1,094,931	588,132	373,953	132,816	81,363	352,161	203,071	90,757	58,333
Regular	307,252	156,405	120,848	29,999	284,256	163,906	105,816	14,533	352,161	203,071	90,757	58,333
Emergency	1,483,740	46,819	71,989	1,064,932	303,876	210,047	27,000	66,830	---	---	---	---
Asia/Near East	939,272	603,445	335,827	---	926,907	528,214	398,693	---	733,540	498,765	234,775	---
Regular	938,272	602,445	335,827	---	926,907	528,214	398,693	---	733,540	498,765	234,775	---
Emergency	1,000	1,000	---	---	---	---	---	---	---	---	---	---
Latin America	213,202	138,461	65,137	9,604	213,048	150,902	36,882	25,264	204,148	154,467	24,506	25,175
Regular	184,619	137,826	40,534	6,259	200,731	150,902	24,565	25,264	204,148	154,467	24,506	25,175
Emergency	28,583	635	24,603	3,345	12,317	---	12,317	---	---	---	---	---
Developmental Inititiatives									184,929			
Reserve					416,244				376,940			
Stock Adjustment	(211,104)	(211,104)			(111,243)	(111,243)			(85,630)	(85,630)		
Transport Costs												
PROGRAM LEVEL	2,773,234				2,038,031				1,766,088			

(Metric Tons/Metric Ton Grain Equivalent)

	FY 85 Total	Volags	WFP	GTG	FY 86 Total	Volags	WFP	GTG	FY 87 Total	Volags	WFP	GTG
Subtotal Regions	3,208,316	1,463,246	622,610	1,122,460	1,900,709	1,186,606	602,297	111,806	1,410,202	948,452	377,750	84,000
Developmental Inititiatives									211,281	211,281		
Reserve					435,421	435,421			391,349	391,349		
Stock Adjustment	(230,723)	(230,723)			(120,354)	(120,354)			(94,845)	(94,845)		
PROGRAM LEVEL	2,977,593				2,215,776				1,917,987			

that food aid programs are well targeted, soundly designed and effectively administered. The P.L. 480 Title II Outreach Project, will continue in Fiscal Year 1987 to help cover logistic and material support costs of U.S. voluntary agencies engaged in improving and expanding people-to-people programs in the poorest areas of Africa and Latin America. The Title II Program Enhancement Project will continue to help PVOs improve the development impact of the Title II resources they administer by strengthening their capability to design and implement essential components of supplementary feeding programs. A third Development Assistance-funded activity, Food Data Needs Assessment, will continue to help AID missions and host governments improve collection and analysis of food sector data in drought-prone African countries, in order to ensure more accurate and timely estimates of food aid needs.

World Food Program

In 1987, over 350,000 metric tons of food valued at $75 million will be allocated to regular feeding programs of the United Nations Food and Agriculture Organization-sponsored World Food Program. The United States, together with 11 other major donors, pledges food, services (such as ocean transportation costs) and cash to the World Food Program for projects similar to those sponsored by U.S. voluntary agencies. The World Food Program has been instrumental in the difficult task of coordinating emergency shipments from the U.S. and other donors to Africa, as well as monitoring in-country logistical constraints. In Fiscal Year 1986, approximately 568,400 metric tons of food valued at over $110 million is projected for shipment through the World Food Program for support of regular and emergency activity; in Fiscal Year 1985, nearly 594,000 metric tons valued at nearly $136 million were shipped through WFP.

Section 416

Section 416 of the Agriculture Act of 1949 authorizes the donation of U.S. agricultural commodities made available from Commodity Credit Corporation (CCC) stocks by the Secretary of Agriculture to foreign government and private and voluntary organizations for development and humanitarian assistance overseas. The program aims to reduce CCC food inventories while assisting needy people. Section 416 proposals are approved by the Development Coordination Committee (DCC) to assure that programs complement other U.S. foreign assistance and are consistent with U.S. foreign policy, budgetary considerations and agricultural policies.

In Fiscal Year 1985, 48 agreements for programs in 18 countries were signed for 146,762 metric tons of dairy products (nonfat dry milk, butter, oil, and cheese). Program levels for Fiscal Year 1986 and 1987 will depend upon the size of the CCC inventory and approved program requests.

U.S. FOREIGN AGRICULTURAL ECONOMIC ASSISTANCE PROGRAMS

Objectives of the AID Program

As reported by USAID, the two major objectives of the AID program in agriculture, nutrition, and rural development are:

- increased food availability, through: (a) increased agricultural production, with an emphasis on increasing and sustaining the productivity, incomes and market participation of small farmers, with special attention to food production; and (b) greater economic efficiency in the marketing and distribution of agricultural and food production, exports and imports.
- improved food consumption, through: (a) expanded productive employment of those who now lack the purchasing power to obtain adequate food; (b) increased awareness and incorporation of sound nutritional principles in the design and implementation of production, marketing, health and education policies and programs; and (c) effective direct distribution of food from domestic or external sources to those facing severe malnutrition and temporary food shortages.

The primary means for achieving these objectives are activities that:

- improve country policies to remove constraints to food and agricultural production, marketing and consumption;
- develop human resources and institu-

tional capabilities, especially to generate, adapt and apply improved science and technology for food and agricultural development, and conduct research on developing country food and agriculture problems;

- expand the role of developing country private sectors in agricultural and rural development, and the complementary role of the U.S. private sector in assisting this expansion; and
- employ all available assistance instruments in an integrated manner, including the provisions of P.L. 480 food aid in ways that contribute to the other three elements as well as meeting food security and nutritional needs.

AID Operations and Activities

AID operates with its own agricultural, rural development, and nutrition personnel together with scientists and experts in specialized fields made available from American universities, private voluntary organizations, private sector firms, the Department of Agriculture, and other U.S. government agencies, notably the Peace Corps. AID also draws upon technical expertise from developing countries as well as the food and agricultural development experience of the U.S. Food and Agriculture Organization (FAO), the World Food Council (WFC), the International Fund for Agricultural Development (IFAD), the World Food Program (WFP), and other donor agencies.

AID programs include the following types of activities:

- increasing agricultural productivity by developing and disseminating improved crop varieties and more efficient agricultural practices; training scientists, economists, and others needed for sustained agricultural and rural development; supporting improved land tenure arrangements and agrarian reform policies; assessing the impact of alternative pricing and marketing policies; encouraging the development of small farmer organizations and local participation in project planning and implementation; protecting the environment and natural resource base through better land and water management; halting and reversing deforestation by reforestation and agroforestry and by developing renewable energy alternatives to firewood, testing fast-growing tree species, introducing biomass systems as a source for fuel, and supporting village woodlots; increasing the availability of water, improved seed, credit, and other agricultural inputs at reasonable prices through private distributors; reducing post-harvest food losses; and facilitating small farmer access to markets.
- creating rural employment by assisting in the development of small-scale rural enterprises and the use of appropriate, capital-saving technology; promoting labor-intensive agricultural production systems; supporting the creation of rural infrastructure such as roads and irrigation facilities; assisting in the development of alternative forms of energy; and assessing the impact of employment-oriented policy reforms.
- improving nutrition by increasing disposable income through employ-ment generation in both rural and urban areas; reducing post-harvest losses and seasonal variations in food supply through improved storage and processing; improving food distribution and marketing; overcoming nutrient imbalances through food fortification; supporting supplementary feeding; improving food utilization through one-to-one and mass media nutrition eduction programs; targeting development programs to households with the highest nutritional risk; assisting in the assessment of food consumption effects of agricultural programs and food policies; and integrating nutrition and food consumption objectives in health and agricultural programs.

To implement these activities, AID provides technical support, capital assistance, food aid, agricultural and nonagricultural credits, and commodity assistance. These assistance instruments are used in an integrated way and are provided only when

SUMMARY —FY 1987—
AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION ACTIVITIES
(IN THOUSANDS OF DOLLARS)

	TOTAL	GRANTS	LOANS
BUREAU FOR AFRICA			
BURUNDI	750	750	---
CAMEROON	13,338	13,338	---
CENTRAL AFR REPUBLIC	2,000	2,000	---
COMOROS	700	700	---
CONGO	188	188	---
EQUATORIAL GUINEA	1,000	1,000	---
GHANA	1,200	1,200	---
GUINEA	3,730	3,730	---
GUINEA-BISSAU	2,000	2,000	---
KENYA	6,600	6,600	---
LESOTHO	5,460	5,460	---
LIBERIA	4,980	4,980	---
MADAGASCAR	1,000	1,000	---
MALAWI	3,220	3,220	---
RWANDA	6,000	6,000	---
SAO TOME/PRINCIPE	300	300	---
SIERRA LEONE	1,300	1,300	---
SOMALIA	11,438	11,438	---
SUDAN	23,005	23,005	---
SWAZILAND	2,000	2,000	---
TOGO	1,749	1,749	---
UGANDA	5,350	5,350	---
ZAIRE	11,100	11,100	---
ZIMBABWE	5,000	5,000	---
AFRICA REGIONAL	34,592	34,592	---
TOTAL FOR BUREAU	148,000	148,000	---
BUREAU FOR ASIA AND NEAR EAST			
BANGLADESH	40,000	40,000	---
BURMA	8,000	8,000	---
INDIA	60,600	15,000	45,600
INDONESIA	28,875	12,250	16,625
MOROCCO	9,500	9,500	---
NEPAL	10,219	10,219	---
PAKISTAN	13,200	13,200	---
PHILIPPINES	13,850	13,850	---
SRI LANKA	19,000	6,000	13,000
THAILAND	12,200	4,600	7,600
YEMEN	11,500	11,500	---
SO PACIFIC REGIONAL	2,300	2,300	---
ASIA AND NEAR EAST REGIONAL	8,702	8,702	---
TOTAL FOR BUREAU	237,946	155,121	82,825

SUMMARY —FY 1987—
AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION ACTIVITIES
(IN THOUSANDS OF DOLLARS)

	TOTAL	GRANTS	LOANS
BUREAU FOR LATIN AMERICA AND CARIBBEAN			
BELIZE	1,900	1,900	---
BOLIVIA	4,300	1,600	2,700
COSTA RICA	1,350	1,350	---
DOMINICAN REPUBLIC	15,000	4,000	11,000
ECUADOR	9,850	7,850	2,000
EL SALVADOR	38,152	25,652	12,500
GUATEMALA	13,500	11,500	2,000
HAITI	10,166	10,166	---
HONDURAS	20,902	8,702	12,200
JAMAICA	8,000	8,000	---
PANAMA	8,300	3,300	5,000
PERU	8,200	7,200	1,000
CARIBBEAN REGIONAL	12,434	12,434	---
CENTRAL AMERICAN REGIONAL	500	500	---
ROCAP	24,112	15,725	8,387
LAC REGIONAL	2,088	2,088	---
TOTAL FOR BUREAU	178,754	121,967	56,787
BUREAU FOR SCIENCE AND TECHNOLOGY			
AGRICULTURE	36,300	36,300	---
ENERGY	2,700	2,700	---
FORESTRY AND ENVR NAT RES	4,800	4,800	---
NUTRITION	2,700	2,700	---
RURAL AND INSTITUTIONAL DEVELOPMENT	7,450	7,450	---
PROGRAM OFFICE	1,700	1,700	---
RESEARCH AND UNIVERSITY RELATIONS	5,500	5,500	---
TOTAL FOR BUREAU	61,150	61,150	---
BUR FOR FOOD FOR PEACE AND VOL ASSIST			
FOOD FOR PEACE	6,650	6,650	---
PRIVATE/VOL COOP	12,750	12,750	---
TOTAL FOR BUREAU	19,400	19,400	---
BUR. FOR PROGRAM AND POLICY COORDINATION			
EVALUATION AND DEV INFO	1,825	1,825	---
POL DEV/PROGRAM REV	1,175	1,175	---
PROGRAM BUDGET	47,450	47,450	---
WOMEN IN DEV	1,200	1,200	---
TOTAL FOR BUREAU	51,650	51,650	---

SUMMARY --FY 1987--
AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION ACTIVITIES
(IN THOUSANDS OF DOLLARS)

	TOTAL	GRANTS	LOANS
BUREAU FOR PRIVATE ENTERPRISE			
COOPERATIVE DEVELOPMENT ORGANIZATIONS	6,000	6,000	---
INVESTMENT	5,500	---	5,500
POLICY AND PROGRAM REVIEW	1,500	1,500	---
TOTAL FOR BUREAU	13,000	7,500	5,500
TOTAL PROGRAM	709,900	564,788	145,112

- such assistance is linked to proposed changes or effective performance in the areas of policy reform; institutional and human resource development; and technology development, transfer, and utilization.
- country performance can be closely monitored and evaluated to determine whether U.S. assistance is effective.

U.S. AGRICULTURAL COMMUNITY CONCERNS

Agricultural Community Concerns

Over a 32-year period the United States has spent $35 billion on P.L. 480 food aid programs and countless other billions on foreign economic asssistance to thwart starvation, prevent food shortages, and promote higher living standards in other countries. It was an act of legislative genius to match America's abundance in agriculture with global food needs. Of all the forms of foreign assistance offered over the years by the United States, other countries, and international institutions, American food aid probably stands the most in visibility and in the memory of the citizens in recipient countries. Ask any German or Japanese who was around in the early post-war years. Or any Haitian or Kenyan living today.

Public Law 480 was intended to be mutually beneficial to recipient countries and to the United States. It would provide them with immediate support for their food systems while permitting them to get on with their investment and development efforts. It would provide the United States with immediate additional exports while creating new trade relationships and new consumer preferences which would result in long-term commercial markets.

For most of the years that we have had P.L. 480 food aid programs, they were mutually beneficial, and highly so. Famine and starvation ceased to be problems, except where host governments and warring armies prevented the delivery of relief. For most countries, food aid did not become a permanent dole and did not wreck Third-World agriculture. Recipient countries which followed proper policies to provide incentives to private agriculture learned to improve their own agricultural economies even while receiving high levels of food aid for current consumption. And many of the strong commercial markets for U.S. agriculture in the 1980s are graduates of our food aid programs of the 1950s and 1960s – Korea, Taiwan, Spain, Colombia, and so on.

Yet, in recent years, food aid has lost its way as far as U.S. agriculture is concerned. A number of things are wrong, among them the following:

- **Food aid has been held down with a choke hold in our total foreign economic assistance budget in favor of cash aid and other forms of aid.** As a result it is having a much smaller impact on the Third-World food problem or on the level of activity of U.S. agriculture than used to be the case, or than could be the case.
- **Food aid programs are dominated by foreign policy and development concerns to the neglect of the interest of U.S. agriculture in promoting new market development for the long term.**
- **The policy conditions that the United States attaches to most of our food aid agreements are heavily skewed toward social welfare considerations in the recipient country, and do not do much to fasten private economic development and private initiative in the Third-World.**

In general, there is insufficent attention to the future impact on U.S. agriculture of our programs in food aid and other forms of assistance to agriculture in Third-World countries. In some cases, we are neglecting opportunities. In others, we may be creating problems in the form of future competitors in our commercial export markets, and in our domestic market as well.

If U.S. agriculture is to grow, we must maintain and develop markets in the Third-World. Consumption of basic agricultural commodities is growing only slowly in industrialized countries, and trade barriers are formidable obstacles to any great expansion of such exports to Western Europe and Japan. The markets of Eastern Europe and the Soviet Union are large and important but may always be somewhat unpredictable as outlets on which U.S. agriculture

can safely depend.

Developing countries became the fastest-growing segment of the market for U.S. agricultural exports after 1972. The share in our exports rose from less than one-third to nearly one-half in ten years. Moreover, our position in these markets was predominant, accounting for nearly two-thirds of the agricultural imports of the developing countries.

In the difficult years of the 1980s, U.S. agricultural exports have held up better in Third-World markets than in other segments of the world markets. But the rapid growth of the 1970s has gone. Third-World countries have suffered from many of the same problems that have devastated the U.S. agricultural sector: debt burdens, high interest rates, the appreciated dollar, low commodity prices, trade barriers, and the slowing of global growth and international trade.

Yet when all is said and done on macroeconomic factors, some of which are easing and some of which will go on for years, there is all the more need for a high-powered and concentrated effort to target U.S. efforts and programs on the most promising developing country markets.

An Assessment of USAID

USAID has historically been particulary well-suited for carrying out foreign policy and humanitarian objectives of U.S. foreign assistance programs. Indeed, many U.S. political interests and social welfare concerns, including human rights and the position of women in Third-World countries, have been well served by USAID over the years.

In the area of U.S. market development objectives and assisting private American businesses, however, USAID has been much less successful. This is perhaps not surprising. It is unrealistic to expect AID to give much priority to these interests, given its competing priorities, traditions, and expertise. In addition, AID's development specialists, most of them oriented toward the health, education and nutrition needs of the world's poor, cannot also be expected to be specialists in commodity markets and outlook, long-range market development, and trade strategy.

Indeed, the result of current policy has been neglect and sometimes a direct undercutting of the economic interests of U.S. agriculture. U.S. wheat producers were directly hurt by AID development of grain port facilities in Safada, Egypt on the Red Sea, solely to facilitate the cheaper importation of larger quantities of Australian wheat in competition with U.S. wheat landed in Alexandria on the Mediterranean. Similarly, U.S. soybean producers failed to understand AID assistance through U.S. university personnel to improve tropical varieties of soybeans in Brazil, the major competitor in international soybean markets. Just recently, an AID mission in a food aid recipient country proposed requiring that a country, as a condition in its next PL 480 agreement, initiate variable impact levies on vegetable oils. Modeled on the protectionist practices of the European Community, the variable levies would have held the cost of imported U.S. and other vegetable oils at their highest historical levels to discourage their use and encourage inefficient indigenous production.

The debt servicing problems of many Third-World countries and the drying up of private capital to finance their development make it more, not less, likely that U.S. marketing interest will be overlooked in development strategy over the next several years. Third-World countries are being advised to raise their own funds for development through export expansion programs to finance capital goods imports while holding down other kinds of imports. It seems certain that well-meaning development specialists will be proposing assistance programs and policy reforms which facilitate exports of agricultural commodities by Third-World countries, intensifying international oversupply and discouraging imports of competitively priced foodstuffs. To safeguard U.S. agricultural interests, it is essential that the trade impact of AID programs in food aid and agricultural assistance be evaluated and made subject to the approval by the Secretary of Agriculture.

Better Utilizing Existing Tools

The 1985 Farm Bill has authorized two new food aid programs with greater potential for assisting U.S. and indigenous private business, primarily in agriculture, than has

been achieved in any of the ongoing food aid programs. Food for Progress agreements would encourage and require recipient governments to improve the climate for private sector business, and sales of PL 480 Title I food aid for local currency under the other newly created authority would be for the purpose of relending through private financial intermediaries to private investors, primarily in agriculture-related businesses in the recipient country.

CONCLUSIONS

The Commission's earlier recommendations bear a promise of rectifying some of the problems that have been identified herein. The Commission is not calling for any additional federal spending in the recommendations it has presented; only a reordering of priorities. Neither is it calling for new foreign assistance programs beyond those now in place. The Commission does believe that there should be more food aid in preference to other forms of aid. There should be a much clearer priority to our own market development interests. There must be better safeguards to ensure that this policy prevails. And there must be a better concentration of effort on key markets than is the case today.

The days are over when we could hope that commercial market development would take care of itself and that sattershot federal programs abroad would necessarily serve long-term U.S. export interests. In relation to such matters, it is time to better harness the tools available to serve the purpose of expanding U.S. agricultural exports to the poorest and the wealthiest nations alike.

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Reorientation Of Food Aid And Economic Assistance

Accompanying Information On Foreign Assistance

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REPORT ON DIRECTING FOREIGN ASSISTANCE
TO STRENGTHEN THE PRIVATE SECTOR

OF

THE FOOD, HUNGER AND AGRICULTURE SUBCOMMITTEE,
PRIVATE SECTOR ADVISORY COMMITTEE ON INVESTMENT,
TECHNOLOGY AND DEVELOPMENT,
DEPARTMENT OF STATE

IN RESPONSE TO

PRESIDENT REAGAN'S NATIONAL SECURITY DECISION DIRECTIVE 143
OF JULY 9, 1984

Washington, D.C.
April 4, 1986

I. THE CHARGE

On July 9, 1984, President Reagan issued National Security Decision Directive 143 which inter alia directed the

> "formation of a Third World Food Problems Subcommittee under the State Department's Advisory Committee on Investment, Technology and Development, to permit business leaders to share information on Third World Hunger problems and to address these concerns in a cooperative manner."

II. BACKGROUND

The Subcommittee's first and foremost recommendation dealt with the question of directing foreign assistance resources to private sector development. This issue was deemed to be of crucial importance to the solution of the long term hunger problem because:

1. Only through economic development can poor regions assure themselves of adequate food security, either by growing or buying food;

2. The best engine of economic development is a healthy and relatively unfettered private sector;

3. For most poor countries, foreign aid is the main source of external capital. Their futures can depend on whether this capital is used in productive, market oriented investments or in public sector consumption.

The essential role of economic development in eliminating hunger was underscored in last month's World Bank report - Poverty and Hunger - Issues and Options for Food Security. This report concluded that the long-run solution to the hunger problem lies in increasing purchasing power, both for poor nations and for poor regions and populations within countries, and not in expensive policies of self-sufficiency or national grain stock building. The report cited the crucial importance of the agricultural sector - not just for food production, but for income generation in poverty stricken rural areas.

The Subcommittee is concerned that, despite the Administration's 5-year commitment - from Cancun to Seoul - to an enhanced role for the private sector in Third World development (see attached summary of Administration policy), only about 15% of U.S. economic development assistance (and less than 5% of our overall economic aid) is spent in support of private sector development. This estimated percentage figure has remained unchanged for six years. Moreover, a large share of this amount goes to projects that produce little or no direct impact on private sector investment.

III. RECOMMENDATIONS

Consequently, the Subcommittee recommends specifically:

1. That U.S. economic development assistance be administered by a single U.S. development finance institution, as is the practice of other major donors (the UK, the FRG, and the EC, for example) as well as, increasingly, multilateral development banks (the World Bank's IFC and a new facility at the Asian Development Bank). This institution should:

   a. Provide investment means and incentives on market terms for private enterprise;

   b. Encourage private sector investment through risk sharing; and

   c. Serve as a focal point and forum for U.S. economic development assistance efforts generally.

It is expected that this institution will meet regularly with business leaders for advice on program operation. The perspective of potential private sector investors will be useful in developing procedures that are businesslike, efficient and responsive.

2. Beginning in fiscal year 1987, at least 30% - double the existing portion - of U.S. economic development assistance should be made available for direct private investment through this institution, with further increases in subsequent years. Because the agricultural sector in developing countries plays such a crucial role in producing income, food system development should be a priority.

Both indigenous private businesses and U.S. direct agribusiness investors should be eligible to participate in such economic development initiatives.

Accordingly, the following types of investment mechanisms would be appropriate for this funding:

   a. Equity or convertible debt investment as seed capital for start-up ventures;

   b. Revolving loan or equity funds made available through financial intermediaries;

c. Guarantees and insurance to cover U.S. private direct investment. This has proven to be particularly useful in encouraging indigenous governments to pursue policies that encourage investment;

d. Cofinancing to provide private lenders and direct investors with added capital and the protection that U.S. government involvement brings;

e. Feasibility studies by businesses able and willing to invest and participate in any follow-up project; and

3. Descriptions of all economic development assistance proposals beginning in FY-87 should be structured in business terms, including profit/loss, projected return on equity, prospects for private financing, and other "bottom line" considerations. This will facilitate comparison of proposed projects, as well as consideration of their market and non-market aspects.

4. To the maximum extent possible, such expanded U. S. development finance should be administered in ways that will encourage appropriate policy responses in recipient countries and should be coordinated with similar activities by multilateral institutions.

IV. CONCLUSION

The Subcommittee cannot overemphasize that the key to developing country food security lies in strengthening the domestic economy, particularly the agricultural sector, thereby increasing purchasing power in areas of the world plagued by poverty and hunger. At a time when foreign assistance resources are increasingly scarce, it is more important than ever to target those resources where history has demonstrated they can be used most productively - in strengthening the private sector, the ultimate engine of economic growth and income generation and therefore the only long run guarantor of world food security.

METHODOLOGY AND WORK PROGRAM

The Subcommittee and/or its working group met ten times and heard from guest experts from a number of institutions, including the World Bank, the International Finance Corporation, the Department of State, the Agency for International Development (especially its Bureau for Private Enterprise), the Overseas Private Investment Corporation the International Executive Service Corps, and the Export Import Bank. The Subcommittee alo heard from a number of private firms that specialize in agribusiness investments in developing countries (the Caribbean Basin Corporation, Western Agri-Management, Griffin-Brand, and Prairie International). The Subcommittee also relied heavily on the collective "hands on" experience of its own members, many of whom have devoted years to finding solutions to economic problems in developing countries. The membership of the Subcommittee is drawn from a wide spectrum of the private sector - see attached list.

The Subcommittee plans to continue work on the remaining recommendations adopted at its November 14 meeting:

A. Encourage agribusiness investment that makes optimal use of indigenous institutions, crops and human resources. This could include indigenous crop and livestock research, and, where applicable, mechanisms that would more directly integrate the agricultural sector in commercial activities.

B. Strengthen coordination and communication between business and private voluntary organizations and technical assistance groups, as well as coordination with national and international agencies.

C. Strengthen private financial institutions and services -- such as commercial banks and credit cooperatives -- that facilitate private agricultural production and distribution.

D. Establish a U.S. Government sanctioned, privately-funded, private sector network of organizations to provide (primarily short-term) business training and assistance to developing country entrepreneurs and government officials.

The Subcommittee will follow the implementation of these recommendations, monitor the results, and report periodically to the Underscretary of State for Economic Affairs, the Committee on Investment, Technology and Development and the U.S. private sector. It will keep the President informed of its work and its recommendations.

SUMMARY OF MAJOR ADMINISTRATION POLICY STATEMENTS ON THE PRIVATE SECTOR IN DEVELOPMENT

1 President Reagan's statement at the Cancun Summit of October 22, 1981 where he set forth a "positive program of action for development", one of the goals of which was "improving the climate for private capital flows, particularly private investment". Lauding the "individual farmers, laborers, owners, traders and managers" that are the "heart and soul of development", he said the role of government was to create "incentives to work, save, invest, and succeed".

2. President Reagan's International Investment Policy Statement of September 9, 1983, where he pointed out the "vital and expanding role" played by international direct investment. He also encourage the "multilateral banks to explore ways to strengthen the private sector role in facilitating financial flows to the developing world". He laid great stress on supporting private direct investment in developing countries. The multilateral development banks have, in fact, increased their private sector lending substantially in the last few years; in addition to the World Bank's IFC, the Asian and Interamerican Development Banks have both established and funded facilities to invest directly in the private sector in developing countries.

3. The Report of the President's Task Force on International Private Enterprise, which urged greater support for programs promoting trade with and investment in developing countries. It recommended that the U.S. "not channel its foreign assistance resources to the government, but to the private sector in developing nations.

4. Treasury Secretary Baker's statement at the World Bank - IMF meeting in Seoul, October 8, 1985, which quoted approvingly form Brazilian President Sarney that "private enterprise must be the flagship of our economic development". Secretary Baker called for "increased reliance on the private sector and less reliance on government to help increase employment, production and efficiency", and "market opening measures to encourage foreign direct investment". He pointed out that "equity ... can have a compounding effect on growth, bring innovation and technology..."

TARGETING OF MARKET GROWTH POTENTIAL IN THIRD-WORLD COUNTRIES

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TARGETING OF MARKET GROWTH POTENTIAL IN THIRD-WORLD COUNTRIES

POLICY STATEMENT

United States agricultural export promotion strategy should be more effectively targeted to achieve growth in markets in developing countries. Three-quarters of the world's population live in such countries. Ninety percent of world population growth will occur in these countries in the next 14 years. These markets offer tremendous opportunity for U.S. agriculture, provided that existing, often unmet, demand can be translated into effective demand for agricultural commodities, products, and services which the United States produces.

Congress recognized this important factor in the world trading environment in the 1985 Farm Act, and created within the Executive Office of the President, the position of Special Assistant for Agricultural Trade and Food Aid Development. The provision establishing the Special Assistant to the President calls upon the Executive Branch to identify at least 15 growth markets for U.S. agricultural commodities and products, and requires the Special Assistant to coordinate the programs and actions of various agencies to promote development of such markets. The Commission endorses the broad fundamentals of strategy underlying this provision of the 1985 Farm Act. Preliminary investigations by the Commission indicate a wide variety of developing nations which may be suitable for such targeting.

RECOMMENDATIONS

The Commission recommends:

1. **The Secretary of Agriculture be required to coordinate, together with the Special Assistant to the President for Agricultural Trade and Food Aid Development, a pilot program of targeted Third-World country "growth market" development relying on a wide variety of currently existing federal programs dedicated to economic and agricultural development and market expansion.**
2. **The President appoint without delay a forceful agricultural representative to serve as Special Assistant to the President.**
3. **The Congress and the President establish it to be policy of the United States to make better use of existing resources to aggressively and imaginatively develop new markets for U.S. agricultural commodities in Third-World countries.**

Third-World "Growth Markets"

The Commission releases at this time its preliminary findings on significant growth markets for U.S. commodities and products, which are contained in Section One of this report, under title of "Future Growth Markets for U.S. Commodities and Products."

The pilot program recommended by the Commission should be a joint undertaking of the Secretary of Agriculture and the Special Assistant to the President, consistent with the expanded role of the Secretary in trade matters as called for in this report. The Special Assistant should seek to place his influence behind recommendations of this Commission involving better use of food aid and foreign economic assistance programs to serve market development objectives. The Secretary of Agriculture, acting through offices recommended for establishment in this report, should have principal responsibility for development of long-term strategies for market development, as contained in relevant provisions of the 1985 Farm Act.

Appropriate recognition should be given to the fact that economic growth in developing countries significantly depends upon the market access the United States and other industrialized countries accord the commodities and products of such countries. To be successful, strategies in respect to such countries must facilitate trade in both directions.

COMMENTARY

Developing country markets are a reservoir of substantially untapped potential for U.S. agricultural exports, provided that they

can be equipped with the tools to enable them to become significantly larger customers for U.S. farm products. Indeed, during the decade of the 1970s, these countries represented the fastest growing component of total world demand for U.S. commodities and products. The share of U.S. total exports going to the developing countries increased from 30 percent to 47 percent between 1970 and 1983. The sources of this expanded demand are well documented in the attached study – worldwide inflation and excess liquidity in international money markets fueled investment and import-oriented policies among developing nations. Since the early 1980s, such trends have been reversed. Economic growth has been overtaken by indebtedness. **The debt crisis of 1982 severely curtailed purchases of U.S. agricultural products; and has since set in motion a draconian regime of import restriction that has starved the international agricultural trade sector.**

Recent efforts to turn around the indebtedness problems of some middle income developing countries have met with limited success. Strictures applied by the International Monetary Fund (IMF) and other international and private lending institutions have improved these nations' ability to service their outstanding debt. **However, such policies have been implemented at the expense of domestic consumption. Imports have been reined in. Export-led recovery has been touted as the means – and perhaps the only means – to enable such countries to ride out the indebtedness problems they currently face.**

The result of such policies has been somewhat of a double-edged sword for American agriculture. On the one hand, increased and sustained economic growth in these countries is a necessary factor in improving overall world demand for traded goods and services. On the other hand, a precondition for such growth would appear to be the opening of developed country markets for imports from developing countries; a policy which threatens the stability of primary and lesser-technology industries in the industrial nations. The agricultural exports of such nations contribute to a further glut in the international agricultural trade sector. The result is declining prices for developed and developing country agricultural goods, an outcome which is good for neither category of nations.

A thoroughgoing solution to the problem of Third-World indebtedness is clearly indicated. Recent Administration initiatives, such as the proposal of Treasury Secretary James Baker, bear some potential. In addition, Congressional attention to the issue – notably, Congressional Committee attention and proposals of Senator Bill Bradley and others – indicate the breadth of understanding of the importance of the issue. Nevertheless, the problems of Third World indebtedness persist.

The Commission believes that further attention must be given to economic restabilization of Third-World indebted nations, with emphasis upon increased domestic consumption, rather than simple export-oriented growth. Neither developed nor developing nations will prosper, if the goods of the Third-World are dumped on the international market in order to compensate for current account shortfalls and the need to earn foreign currency. A better strategy, from the U.S. perspective, would be to assist in the further development of domestic demand for products produced in Third-World countries, with an emphasis on increasing the capability of a greater proportion of their populations to produce and to purchase goods and services internally. Such a policy should be geared to maximize the full, two-way, benefits of trade. **Full economic self-sufficiency should not be a goal in and of itself, particularly if such policies lead to non-economic allocation of scarce economic resources or to overemphasis on the export sector at the expense of domestic consumption. Rather, the emphasis of such policy should be on expanding effective demand through a restraining of Third-World country internal economic policies which artificially dampen prices and hence returns to private investment; and an equitable distribution of wealth-laden resources throughout such economies, to ensure full participation of the total population in the economy and in wealth creation.**

U.S. agricultural export policies, if targeted to meet such objectives, can play an important role in the process of upgrading

standards of living throughout the Third-World. Expanded use of food aid credits, enhancements, and market development activities can relieve indebted nations from the burden of allocating scarce resources to food and fiber production, while preserving such resources for use in domestic development activities designed to expand growth within these economies. Such a policy cannot be undertaken without a commitment from such countries to undertake economic reforms. Nor can it occur, without a thoroughgoing U.S. federal government commitment to target in some degree, its food aid credit enhancement resources to achieve such policy outcomes. **It is in this regard that the Commission recommendations can best serve to reinvigorate demand in indebted countries, while concurrently serving the purpose of expanding overseas sales of U.S. agricultural commodities and products.**

Of course, attention to the total needs of the developing world must also take into account the problems of the poorest of these nations. Food aid is the only applicable tool in this instance. Greater attention to policies to expand private sector growth in such countries – through means such as Food for Progress and sales for foreign currencies as authorized in the 1985 Farm Act, as recommended elsewhere in this report – can contribute to the development of preferred economic growth paths in the most viable economies among lesser developed countries (LDC). For other LDCs, continued humanitarian assistance may represent our best investment.

The Commission Recommendations

The importance of targeting food aid and other government resources to enhance demand in developing country markets was acknowledged by the Congress in the 1985 Farm Act, with the authorization of the position of Special Assistant to the President for Agricultural Trade and Food Aid. The authority contained in the Act provided authority to the Special Assistant as follows:

1. The Special Assistant shall –
   a. assist and advise the President in order to improve and enhance food assistance programs carried out in the United States and foreign countries;
   b. be available to receive suggestions and complaints concerning the implementation of United States food aid and agricultural export programs anywhere in the United States Government and provide prompt responses thereto, including expediting the program implementation in any instances in which there is unreasonable delay;
   c. make recommendations to the President on means to coordinate and streamline the manner in which food assistance programs are carried out by the Department of Agriculture and the Agency for International Development, in order to improve their overall effectiveness;
   d. make recommendations to the President on measures to be taken to increase use of United States agricultural commodities and the products thereof through food assistance programs;
   e. advise the President on agricul-tural trade;
   f. advise the President on the Food for Progress program and expedite its implementation;
   g. serve as a member of the Development Coordination Committee and the Food Aid Subcommittee of such Committee;
   h. advise department and agencies of the federal government on their policy guidelines on basic issues of food assistance policy to the extent necessary to assure the coordination of food assistance programs consistent with law, with the advice of such Subcommittee; and
   i. submit a report to the President and Congress each year through 1990 containing –

i. a global analysis of world food needs and production;

ii. an identification of at least 15 target countries which are most likely to emerge as growth markets for agricultural commodities in the next five to ten years; and

iii. a detailed plan for using available export and food aid authorities to increase United States agricultural exports to those targeted countries.

2. The Special Assistant shall also –

   a. solicit information and advice from private and governmental sources and recommend a plan to the President and Congress on measures that should be taken –

      i. to promote the export of United States agricultural commodities and the products thereof; and

      ii. to expand export markets for United States agricul-tural commodities and the products thereof;

   b. develop and recommend to the President national agricultural policies to foster and promote the United States agricultural industry and to maintain and increase the strength of this vitally important sector of the United States economy; and

      i. appraise the various programs and activities of the federal government, as they affect the United States agricultural industry, for the purpose of determining the extent to which such programs and activities are contributing or not con-tributing to such industry; and

      ii. make recommendations to the President and Congress with respect to the effectiveness of such programs and activities in contributing to such industry.

While the Special Assistant was accorded responsibilities in trade matters beyond those attending market expansion in Third-World countries, it is evident to the Commission that the authors of the provision intended that the Special Assistant engage in a substantial program designed to target Third-World country markets for increased U.S. agricultural exports. Since the passage of the 1985 Farm Act, the position of Special Assistant has yet to be filled by the President. The objection of federal agencies to this provision of law must be noted: USDA, USAID, the Department of State, and USTR all appear to be in opposition to the appointment of a Presidential aide whose responsibilities could entail interference in programs currently under their direct supervision.

The Commission understands the concerns of those federal agencies in this matter. Indeed, it is not entirely satisfied that the Special Assistant could be effective in as wide a role as advocated by the authors of the provision, particularly given the institutional resources available to competitor agencies which might not be available to the Special Assistant.

Nevertheless, the Commission does accord some merit to the proposal to establish a Special Assistant, particularly as it pertains to the coordination of a broadened program to serve the objective of expanding demand for U.S. agricultural commodities and products in Third-World countries. Consequently, it recommends the appointment of a competent official to serve in this position, with particular responsibilities as indicated below.

Elsewhere in this report, the Commission has recommended that the Secretary of Agriculture be accorded expanded responsibilities in matters of food aid, agricultural foreign economic development, and agricultural trade policy. It now reiterates its support of this proposal. The Commission believes that the Secretary of Agriculture should be the lead federal official responsible for the coordination and implementation of all such policy; nevertheless, it welcomes the proposal to establish the position of Special

Assistant. Such an individual, with his institutional linkage to the White House, could work effectively with the Secretary of Agriculture to ensure that agricultural interests are served in the total federal interagency process affecting agricultural trade matters. **However, the Commission also believes that the responsibilities assigned to the Special Assistant are far too broad. It therefore recommends that the Special Assistant be appointed and assigned by the President to serve, together with the Secretary of Agriculture, as co-coordinator of a special pilot program designed to identify developing country growth markets; direct federal resources to bear in such markets; and elaborate future policy respecting such markets to include provision of as wide a variety of governmental tools as may be possible and needed to turn unmet demand in such markets into effective demand for U.S. agricultural commodities and products.**

As proposed by the Commission, the pilot program would involve assignment to the Special Assistant and the Secretary of Agriculture limited claim to resources under control of other agencies of government – such as the U.S. Departments of State and Treasury, and USAID – which could be brought to bear on the subject of expanded U.S. agricultural export sales to promising developing markets. Staff work would be performed by the Department of Agriculture (and, if implemented, by its Office of Food Aid Policy, as recommended by the Commission).

The Special Assistant and the Secretary of Agriculture would jointly draft annual country-specific agricultural export and market development plans for a selected number of Third-World markets. Such plans could involve proposals to program funds other than those available to the Special Assistant or Secretary of Agriculture; and could entail utilization of funding available to any other agency of government. The plans jointly submitted by the Special Assistant and the Secretary of Agriculture would be included in annual Executive Branch budget recommendations, and would be actionable by Congressional appropriations committees. Target resources could be applied to such plans in keeping with Executive and Congressional priorities. Thus, for example, if $100 million was scheduled for such activities, it could involve $50 million in P.L. 480 expenditures, $20 million in USAID technical assistance, $15 million in export enhancement, and $15 million in other services provided by other branches of government.

The keynote of the Commission's recommendation is flexibility: the needs of developing countries should be analyzed, then acted upon using the best resources at hand to achieve the goal of expanding agricultural exports. The principal responsibility for designing and implementing the program would rest with the U.S. Department of Agriculture, under contract with other agencies, such as USAID, which would perform the functions specified under the jointly agreed upon plan of the Secretary and the Special Assistant. Such agencies would not necessarily sacrifice their own resources: appropriations to carry out such functions would be provided. On the other hand, Congress would have to dictate by legislation that access to funds available to other agencies could not be impeded, upon Congressional approval of annual country-specific export plans as described above.

The Commission recognizes the difficulties involved in implementing such a program. Nevertheless, it feels that the flexibility allowed by this approach could bear promise. **As a pilot program involving, at least initially, limited resources, the program would not involve exaction upon any particular agency.** However, if it proved a valuable experiment, the program might be expanded. Appropriations would still be provided to participating agencies, under contract to the USDA. **Yet coordination by the Secretary of Agriculture, together with the Special Assistant, would assure that the resources allocated were put to best use to achieve the goal of expanding U.S. agricultural exports to Third-World countries.**

Further refinement of this proposal is required. Nevertheless, the Commission calls upon the Congress and the Administration to consider it, as a further means to unfetter the interagency constraints which frustrate efforts to bring all tools to bear in regard to the important objective of expanding U.S. agricultural exports to developing nations.

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T H I R D W O R L D I S S U E S

Paper prepared for the
National Commission on
Agricultural Trade and Export Policy

April, 1986

THIRD WORLD ISSUES

I. INTRODUCTION/SUMMARY

The decade of the 1970s will go down as dominated by the two oil price shocks that carried the principal commodity in world trade from $2 to $40 a barrel. Economies of both developed and developing countries were profoundly wrenched, with inflationary consequences almost everywhere. Money, international credit and commodity trade expanded greatly.

While much concern was focussed on the heavy trade deficits of oil-importing developing countries, those with access to private bank financing actually enjoyed great gains in growth and income during the 1970's, as did the oil-exporting developing countries themselves. For the most part, the vast surpluses from the trade of OPEC countries were recycled through the banks to the developing countries, especially to the middle and higher income developing countries -- and not to the industrial countries which imported most of OPEC's oil to begin with.

There were several features about this lending which carried the seeds of the destruction of the boom for developing countries. It became the principal form of international capital flow to developing countries, overshadowing official lending by donor governments and multilateral agencies. It was lent primarily to developing country governments rather than to private entitites, to be serviced through new borrowings when official revenues were short. Expansion of the credit flow was contingent upon a continuation of OPEC trade surpluses. Interest rates were floating, and thus adjustable according to the course of monetary policy in the major industrialized countries. Maturities became shorter; thus the repayment burden grew at a faster rate than total loans.

Eventually these factors came to plague the principal borrowing countries among the developing countries as the "debt crisis" of the 1980s. But the developing countries as a whole benefitted greatly in terms of growth and trade while the boom lasted. Capital formation in the non oil exporting developing countries was boosted to the level of 25 percent. And, thanks to the oil price boom and the recycled OPEC surpluses, average growth rates for developing countries as a group came in at six percent for the 20 year period ending in 1980. With the growth of trade outpacing economic growth, developing countries also became the fastest growing market for US agricultural exports.

The screw began to turn in 1980 when the US and other major industrialized countries determined to check inflation at the expense of economic growth. As interest rates soared, so did the servicing cost of the floating rate debt of the developing countries. As the industrialized economies slowed, trade growth and commodity prices declined for developing countries, and with this their credit standing weakened. Equally important, the

current account surplus of the oil exporting countries began to shrink rapidly in 1981 after a run up in 1979-80, and slid into deficit by 1982, drying up additions to recyclable funds. With the arrival of the Mexican debt crisis in 1982, the first for the major developing country borrowers, private bank credit became virtually unobtainable for most developing countries, except in connection with rescheduling of existing debt and to finance ordinary foreign trade. It still remains unobtainable in 1986. The decade of boom had given way to the decade of adjustment.

From 1982, the indebted developing countries (including oil exporters and importers alike), stung by the drying up of new private capital and the burdens of past indebtedness, began to slash their current account deficits in trade and services. Typically, debts were rescheduled, currencies devalued and imports curtailed. Against a background of global economic recovery (particularly strong in the US), some rise in developing countries commodity prices and some decline in interest rates on their outstanding debt the indebted developing countries cut their combined deficits from $113 billion in 1981 to $38 billion in 1984, a surprisingly rapid narrowing of their imbalance. Non-oil developing countries were able to raise their exports, primarily to the US, by 6 percent in volume terms in 1983 and by 12 percent in 1984. By that year there were renewed increases in imports and an acceleration of economic growth to 3.75 percent, compared with only 1.5 percent in the two previous years.

In the five years leading up to the 1982 debt crisis net private financing covered up to half of the large current account deficit of the indebted developing countries. Then private banks virtually withdrew from adding to their lending to most of those countries. They were back in the position they were in 1973 before the great expansion of loans to developing countries.

By 1984-85 the feeling of crisis had subsided. Debt problems were contained, though not resolved. Developing countries economic growth had resumed, though not for all countries. Per capita incomes in most of Africa were no higher than in 1970 and in much of Latin America no higher than in the mid-70s. Asian countries, generally less indebted and oriented toward manufactured exports, made solid gains.

It goes without saying that the renewal of growth in the US, accompanied by expansion of imports and easing of interest rates, was of crucial importance in helping many developing countries to stabilize the burden of interest payments on their debt. The manageability of the developing countries' debt situation is closely linked with the maintenance of economic growth in the industrialized countries. By the same token, the export trade of industrialized countries is directly affected by the economic activity and financial circumstances of the developing countries. When the five big heavily indebted Latin American countries slashed their imports from the US by half, this action alone

accounted for a significant part of the deterioration of the US trade balance in the early 1980s.

It can now be appreciated that the great expansion of US agriculture and agricultural exports during the 1970s was pulled along by the expansion of international lending (particularly to middle income developing countries and East European countries), low real interest rates and the depreciated dollar. Food imports permitted developing countries to raise consumption levels much faster than domestic production would have allowed and world agricultural trade increased at a rate three times faster than world production.

Developing countries became the fastest growing segment of the market for US agricultural exports after 1972, the share rising from less than one-third to nearly one-half of the total by 1983. The additional production from the expansion of US acreage devoted to major commodities (corn, soybeans, wheat and cotton) during the 1970s, including 50 million acres previously idled, was needed to meet growing demand from the developing countries and communist markets and could in fact only be absorbed in those markets. The increased export dependency of the producers of the top cash crops -- feedgrains and soybeans -- tied the overall wellbeing of farmers more closely to international markets. The 25% of gross agricultural sales generated by exports was subject to esoteric factors like the value of the dollar, international interest rates and capital flows and the state of economic development of the Third World.

Income growth in developing countries appears to be the chief variable factor behind rising food consumption and food imports. Urbanization, which changes food consumption and distribution patterns, and total population growth are underlying factors. World population has grown by 2 billion persons since 1950, an 80 percent increase in the number of people to be fed. For developing countries as a group, this meant that increases in food production barely outpaced population growth, leaving it to food imports to satisfy demands arising from changing tastes and higher incomes.

The developing country debt crisis played back into the crisis of US agriculture in the 1980s. The 18 major US agricultural trading partners accounted for more than 60 percent of the debt of countries facing repayment problems. The economies of the fastest growing markets for US agricultural exports -- countries such as Mexico, Brazil, Korea and Nigeria -- slowed or went into reverse, contributing to the decline in volume and value of US agricultural exports at a time when the appreciation of the dollar by 60 percent over four years was also depressing agricultural commodity prices and export sales.

For the future, the expansion of foreign markets is crucial for US agriculture since the domestic market for major commodities may increase as little as one percent a year. The

pace and pattern of agricultural export growth will be conditioned by developing country economic growth and financial circumstances, on one hand, and US competitiveness and access on the other. Neither global supply nor demand have been as favorable for US agricultural exports in the 1980s as in the 1970s and an early return to the credit financed inflationary expansion of world trade of the 1970s is not in prospect. Nonetheless, world food consumption could double again in the next thirty years or less. This would be well ahead of the pace of population increase, expected to nearly double over the 40 years 1980-2020. Ninety percent of the additional population will reside in developing countries. Most of the additional foodstuffs required must be produced in the developing countries themselves but the potential to improve worldwide diets moderately or better over present levels will rest on expanded food imports by the Third World.

The hopes for a revival of farm prosperity in the US and for a renewal of economic growth in the Third World rest on many of the same major factors: a cheaper dollar, lower interest rates, debt relief, expansion of international trade, lowering of trade barriers and resistance to new ones. Third World economies and the US farm sector are both heavily dependent on borrowed capital, on commodity markets and international trade. That is why economic and financial conditions that are good for the Third World are very likely to be good for the US farm sector as well. Foreign economic growth, particularly in the developing countries, may be even more important to the health of US agriculture than domestic growth.

II. INDEBTEDNESS

GROWTH OF DEBT

Developing countries debt increased rapidly in the years after the oil price shock of 1973. Between 1970 and 1984 their medium and longterm outstanding debt grew from less than $100 billion to $686 million. While various forms of official and private capital contributed an expansion of capital flow, the most striking feature was the surge in private commercial bank lending, from 15 percent of the new flows in 1970 to 36 percent in 1983. Moreover, over the course of this period these commercial bank loans tended to carry higher initial rates with floating rate provisions and shorter maturities. Thus the average maturity on the whole public debt of developing countries shrank from 20 years in 1970 to 14 years in 1982, and to 8 years for the portion represented by private bank loans.

In 1984 total debt amounted to one third of the GDP of the developing countries as a group. For some countries it was much more. Countries with $15 - $90 billion of outstanding debt included Mexico, Brazil, Argentina, Venezuela, Chile, Indonesia, Korea and Turkey. The biggest four debtors in Latin America alone owed U.S. banks $69.6 billion in 1984, sufficient to have a substantial impact on bank balance sheets, and other Latin American countries together owed these banks another $18.3 billion.

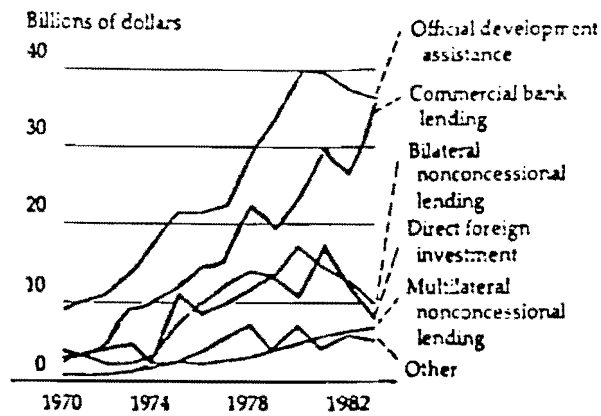
With the onset of Mexico's payments crisis in 1982, additional voluntary lending, i.e. lending outside of rescue packages, nearly ended. Total lending fell from $130 billion in 1981-82 to $30 billion in 1983-84 but only $7 billion of that was lent outside of debt restructure arrangements. Countries most dependent on commercial bank financing naturally felt the cutoff and the rise in interest rates on old debt the most. Additional private bank lending to them dried up entirely but countries without debt servicing difficulties to begin with (because of less resort to private bank lending) saw a smaller drop from $27 billion in 1981 to $13 billion in 1984.

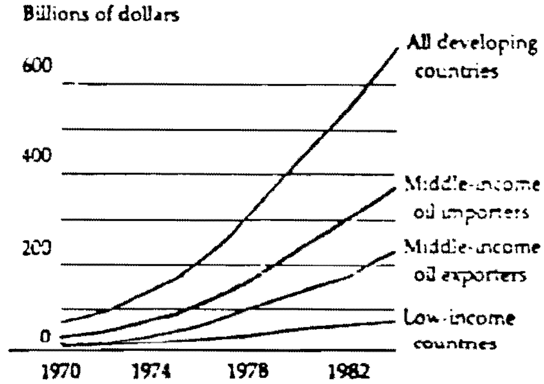
Flight of their capital was a compounding factor in many of the indebted developing countries in the early 1980s as private holders moved funds abroad to escape inflation, to take advantage of overvalued exchange rates and to escape the coming crunch.

DEBT SERVICE BURDEN

Debt service payments soared from $9.3 billion in 1970 to $100 billion in 1984. One half of the latter payment reflected interest rates alone. Debt service amounted to twenty percent of export earnings for developing countries as a group, and the figure was forty percent for the eight largest Latin American borrowing countries. In 1984 Latin American countries paid out

Net capital flows and debt, 1970–84





Source: For net flows: OECD *Development Co-operation*; for debt, World Bank data.

$38 billion in interest and $13 billion in principal. Debt rescheduling arrangements reduced the burden of repayment of principal considerably--by more than $20 billion per year in the 1984-86 time period, keeping the ratio of debt service to export earnings for developing countries in the 20 to 25 percent range. Nonetheless, the amount of service payments continued to rise through 1984 and to be highly sensitive to interest rates in the U.S. and Eurodollar markets.

Debt service payments remain high and will decline only gradually as a share of the export earnings of developing countries. The weight of the burden moreover shifts among groups of countries depending on the course of oil prices, other commodity price levels, the strength of world trade growth, etc. In addition, higher income countries are better able to make financial and trade adjustments in the face of high debt service payments than are the low income countries.

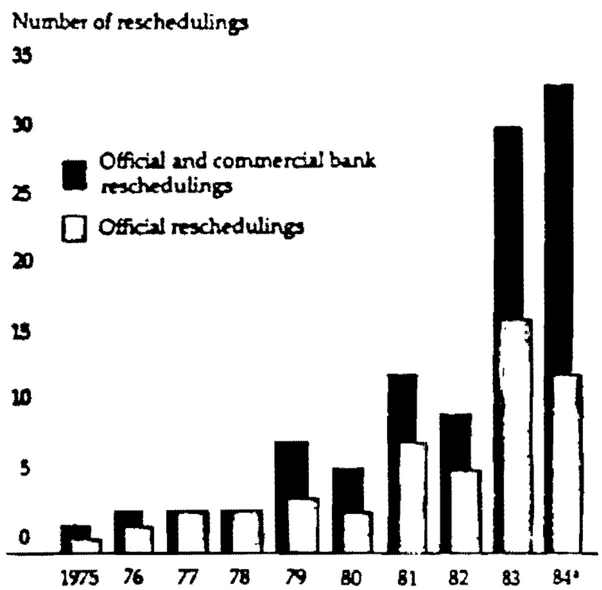
Interest rates and the value of the dollar have a substantial effect on the debt service burden. Over one-third of the developing countries debt carries interest rates that float with international financial market rates. Refinanced debts and new debt also tend to carry higher rates than old debt. Thus the total interest payments of developing countries will continue to creep upward in the 1980s unless international interest rates are falling at the same time. Since most of the debt of developing countries is fixed in dollars and the prices of many of the exports of these countries are affected by the value of the dollar (a high dollar depressing the dollar price of commodities), changes in the international exchange value of the dollar also affect the weight of the debt service burden as a claim on their export earnings.

To ease the service payment burden and avoid default more and more countries have entered into rescheduling arrangements with private bank and official creditors, often for years in advance and with the participation of the IMF in agreed upon programs of finance and adjustment. Treatment of short term debt, spreads, fees, choice of a reference interest rate and other issues have proved contentious. Retention of smaller banks as participants in rescheduling arrangements has been a frequent problem. Through rescheduling arrangements, private banks have managed to protect the solvency which they need and have remained committed to the financing which the developing countries need to keep up the debt service.

ADJUSTMENT MEASURES

IMF balance of payments lending tied to austerity measures has been central to the adjustment effort of the indebted developing countries. The immediate objective was to bring the balance of payments into line with the stoppage of additional private lending while avoiding defaults on outstanding debt. For participating developing countries the required austerity

Multilateral debt reschedulings, 1975–84



a. Data include commercial bank reschedulings agreed to in principle but not signed as of the end of 1984.

Source: World Bank data.

measures put a crimp in investment and economic growth and generated political stress but they were surprisingly successful in righting the external payments accounts. One mark has been the declining urgency of IMF credit as a means of financing developing country deficits. IMF lending peaked in 1983 at $11 billion and has steadily declined.

Adapting their needs to the unavailability of additional new bank loans, the indebted countries slashed their financing requirement (as calculated by the IMF) from $150 billion in 1981 to less than $50 billion in 1984. This amount was covered by foreign aid grants and loans and direct investment. A mere three years after net borrowing from private lenders had reached record levels, the indebted countries had adjusted to its absence while avoiding declarations of default.

Initially austerity measures are blunt, hard instruments: devaluation, tax and price increases, curtailment of credit and investment, with negative consequences for growth and employment and upward pressure on prices. Only when adjustment includes a commitment to financial and structural policies increasing efficient resource allocation do they restore a plausible basis for sustainable longterm growth. Such policies include curbing of government deficit financing, rescission of subsidies, raising of controlled prices to producers and reducing inefficiencies in public enterprises. Lacking access to external sources of funds from trade surpluses or from borrowing, there are strong tendencies in many of the indebted countries to fall into wider domestically-financed budget deficits with strong inflation and weak private investment as a result. During the years of adjustment 1981-84, the investment share of national income fell from 26 to 23 percent in the Third World.

However achieved under pressure of financial necessity, indebted developing countries did cut their chronic deficits on trade and services to the lowest margin in 20 years. By slashing imports and raising exports, they reduced this deficit by $75 billion in three years after 1981. The largest borrowers from private banks, mostly Latin American countries, achieved the greatest turnaround. This was principally through lower imports from and higher exports to the United States, their leading trading partner.

CONTINUING DEBT PROBLEM

Although the immediate crisis was met and appeared substantially eased by 1984, the debt problem will overhang the world financial and trade systems for years. In five years two-thirds of the developing countries debt falls due, an amount exceeding $400 billion, and well beyond the current ability of most developing countries to repay in that time frame. Continuing resort to familiar rescheduling arrangements and pressures for new solutions are in prospect. There might include interest capitalization schemes, formal insurance, stabilization funds,

equity instruments or write-downs. Beyond the debt service problem it is difficult to see where the extra capital to finance renewed development and growth will come from. The Baker plan to restart new private bank financing to selected indebted countries and the parallel intention to step up multilateral official lending represent a modest and necessary start to this process. Yet the starter sums involved would not make a dent in needs privately estimated in the range of $150 billion of new money over three years.

Reducing the burden of the indebted developing countries over the balance of the decade will rest heavily on their own ability to boost their trade and economic growth. This in turn requires an equable world environment with growth in industrialized countries of 3 percent or better, a better balanced expansion involving the U.S., Europe and Japan, lower interest rates, and a cheaper dollar. Oil price changes will affect individual developing countries differently--oil exporting countries will improve or deteriorate dramatically with oil price swings but most developing countries are likely to benefit from low oil prices, not so much because of their direct oil imports but because of the indirect benefit from an economic climate for non-inflationary growth in the industrialized countries.

African borrowers pose an especially complex problem for official bilateral and multilateral lenders. Although the absolute size of the African debt is not large ($27 billion in 1984), it is the highest in relation to income and exports, exceeding 300 percent overall. The underlying structure of the sub-Saharan African countries is weak in most cases and the resilience for adjustment extremely limited. The official lenders are therefore likely to be the ones making the adjustment to the inability to pay.

III. TRADE TRENDS

THIRD WORLD TRADE

Before the onset of the last recession and the debt crisis, 11 of the 20 largest U.S. trading partners were developing countries. Three million American jobs were tied directly to exports to developing countries. The U.S. lost 800,000 jobs after the onset of the international debt crisis in 1982 because the developing countries have not had the foreign exchange to pay for imported goods. U.S. exports to Latin America alone decreased from $39 billion in 1981 to $26.3 billion in 1984. The merchandise trade balance with Latin America deteriorated from a $7 billion surplus in 1981 to a $16 billion deficit in 1984.

The drop of U.S. exports to Latin America, in particular, can be directly attributed to their inability to earn enough foreign exchange to simultaneously service their international debts and to buy foreign products to develop their economies.

The developing countries need to increase their exports in order to reduce the ratio of debt relative to exports, which at the current time is about 4 or 5 to 1. The developing countries in general must recover from the international debt crisis before their credit worthiness makes it possible for them again to have significant access to capital markets.

The major debtor countries have attempted to progress toward this goal. By 1984 they began to expand exports. Brazil increased exports by 23 percent in 1984, and Mexico expanded non-oil exports by a comparable amount. In one year Brazil reduced its debt/export ratio from 360 percent to 300 percent, from 1982-84 Argentina, Brazil, Mexico and Venezuela shifted from a current account deficit of $25 billion to a surplus of $6 billion. However, serious problems remained as the world economy slowed in 1985.

Although the recovery in the industrial countries in 1984 and increased export incentives in indebted developing countries brought about a significant increase of $32.9 billion in exports, imports rose by only $3 billion. Most of the additional export receipts went to interest payments and to build up reserves instead of to increase imports. Import volumes on the whole remained little changed in 1985.

The volume of imports by middle-income countries, which account for almost 90 percent of developing countries private debt, increased by only 1 percent. Imports of middle-income countries remained 8 percent below the 1981 level in real terms. From 1981 to 1983, developing countries reduced imports by $80 billion (8 percent in real terms). During the same period, export receipts also fell by $19 billion while interest payments

increased by $5.4 billion. As a result, developing countries current account deficit dropped from $105 billion in 1981 to $35.6 billion in 1984, its lowest level in relation to GNP since 1964. The adjustment which occurred was not mainly due to successful export promotion but to restrictive policies, controls on imports, and constraints on growth.

Manufactured exports from developing countries increased by over 14 percent in 1984 while primary exports rose by less than 5 percent. Middle-income countries which have built large manufacturing sectors, i.e., Korea and Brazil, and some poorer countries, i.e., Sri Lanka and China, have been increasingly successful in manufactured exports since the 1970s. These countries were in a position to quickly take advantage of the increased demand for manufactures, especially by the U.S.

In 1984 prices of agricultural commodities decreased. Supply increases were a major factor contributing to the 16 percent price decline in food commodities and the 8 percent price decline in agricultural raw materials in late 1984-85.

The slower economic growth in European countries than in the U.S. or Japan also helps to explain the softness in commodity prices during 1983-85, especially since European countries account for about half of the world's imports of primary commodities. The appreciation of the exchange rate of the dollar vis-a-vis other currencies also held down the level of dollar prices of commodities. Reflecting the slowdown of world economic growth in 1985, world trade growth in volume terms slowed to about half of the increase of 8.5 percent achieved in 1984. The current account deficit of developing countries apparently widened moderately in 1985 and projections for 1986 are in disarray because of oil price changes. Reduced purchasing power of oil exports is likely to result in a scaling back of potential import growth for developing countries as a whole. Prospects for primary product exporting countries, and especially those that export oil, are the most clouded.

TRADE POLICIES

Both the developing countries and the industrial countries have responsibilities to meet if the next two decades are going to be a period of buoyant export growth and, therefore, strong global economic growth. The developing countries typically need to reduce excessive protection and maintain realistic exchange rates in order to achieve the smooth integration of their economies and trade into the world eocnomic system.

An initial effect of the adjustment efforts of many developing countries in the 1980s was to choke their participation in international trade. However, some developing countries will emerge from this process with more open trading

policies. The World Bank is working with a number of developing countries to open their markets by changes in the domestic tax system and other changes which eliminate biases against imports.

Many developing countries have signed the GATT although they do not actively participate in the GATT negotiations. Sitting the bench during trade games hurts them more than they probably car comprehend. Since developing countries are free from many of the constraints imposed by GATT rules to begin with, their non-participation and non-reciprocation seem to be without economic soundness.

Article XVIII of GATT states that signatory countries to the GATT during the early stages of development can grant the tariff protection required for the establishment of an industry. Developing countries are also allowed under the same article to impose quantitative trade restrictions for balance of payments reasons. Moreover, they have been relieved of the prohibition to grant subsidies on exports of non-primary products (Article 14 of the Code on Subsidies and Countervailing Duties). Finally, they have been allowed to engage in the formation of customs unions and free trade areas on less stringent terms than those set out in Article XXIV.

Over time this non-reciprocation can contribute to chaotic management of developing country trade practices and import policies. For many reasons, protectionist pressures have not been checked and irrational and costly regimes have evolved in many developing countries.

The relatively advanced developing countries which are becoming efficient agricultural or manufacturing exporters need to take a more active part in further rounds of multilateral trade negotiations. Although the GATT has a mixed record of success through the years, it does seem to be a flexible institution and for many developing countries there is no reason why it could not be used more effectively. Active participation in the GATT process could help developing country governments to check some of their domestic pressures for protection.

A major uncertainty concerning future U.S. farm exports is the future import demand by developing countries. Their economic growth is a necessary condition for rapid U.S. farm export expansion. However, if those countries are to grow--and in turn increase their demand for U.S. agricultural exports--they will have to export more goods to the industrialized countries. Unless the developing countries find an open trading environment for their exports--whether they be shoes, shirts, steel or sugar -- the U.S. is unlikely to experience steady growth in farm exports to them.

As the world's largest agricultural exporter, the U.S. has always supported the free trade ideal. This philosophy is very important today as many of the best potential customers are hard-

pressed to meet debt obligations. Diminishing export opportunities, through protectionism, for these countries not only creates greater debt servicing problems for them but virtually guarantees they will not be able to increase foreign exchange earnings to buy U.S. products. This Administration seems to have resisted protectionist pressures on the whole, and a blind devotion to open trade under all circumstances is not practical policy.

The U.S. trade deficit will not abate quickly. The deficit has been a help to the developing countries because they were able to expand exports and thus to pay the interest on their debts. However, it also increases pressures for new market restrictions. The burdens of new protectionist measures will likely fall heavily on developing countries because their products compete with troubled U.S. industries, their trade policies appear less open than those of industrial countries, and they do not have as much leverage to stave off restrictive actions.

To service their foreign debts the biggest developing country debtors will need to run large trade surpluses in the next few years. When developing countries cannot earn the foreign exchange to do this and to expand their imports at the same time, exporters in the industrial countries are immediately damaged. Thus, U.S. exports of manufactures to major developing country debtors fell by 40 percent between 1980-81 and 1983-84. However, the impact of protection in industrialized countries has been relatively limited in recent years, and the debt crisis was in no way caused by protection. The risk is that higher protection in the future will seriously derail recovery from the debt crisis. In the U.S. the pressure for protection became particularly intense because of the appreciation of the dollar, which acted like a 30-40 percent tax on U.S. exports and a similar subsidy to imports.

The growing use of non-tariff barriers is a serious danger to the exports of developing countries. The extent of NTBs more than doubled in the U.S. between 1980-83 and increased by 38 percent from a larger base in the EC. A bigger share of imports from developing countries is subject to NTBs than imports from other industrialized countries. Reductions in tariffs and NTBs in the industrialized countries could result in significant medium-term increases in the volume of exports from developing countries to industrialized countries. The potential demand for such exports is much greater for manufactures than for agricultural products.

In summary, both the developing countries and the industrialized countries have responsibilities for dynamic trade expansion and global economic growth. For their part, the developing countries typically need to reduce excessive protection, maintain realistic exchange rates and phase out export subsidies. The industrialized countries must resist new protection despite pressures from high unemployment and the high dollar. They must

both be prepared to open markets in entrenched areas of protection, as part of a negotiation in which both the industrialized and developing countries liberalize their markets. The newly industrialized developing countries (NICs) are at the center of the protection issue. They could benefit from greater efficiency through larger import penetration into their economies and their own exports are the principal focus of protectionist pressures in industrialized countries.

IV. ECONOMIC GROWTH

RECENT THIRD-WORLD GROWTH

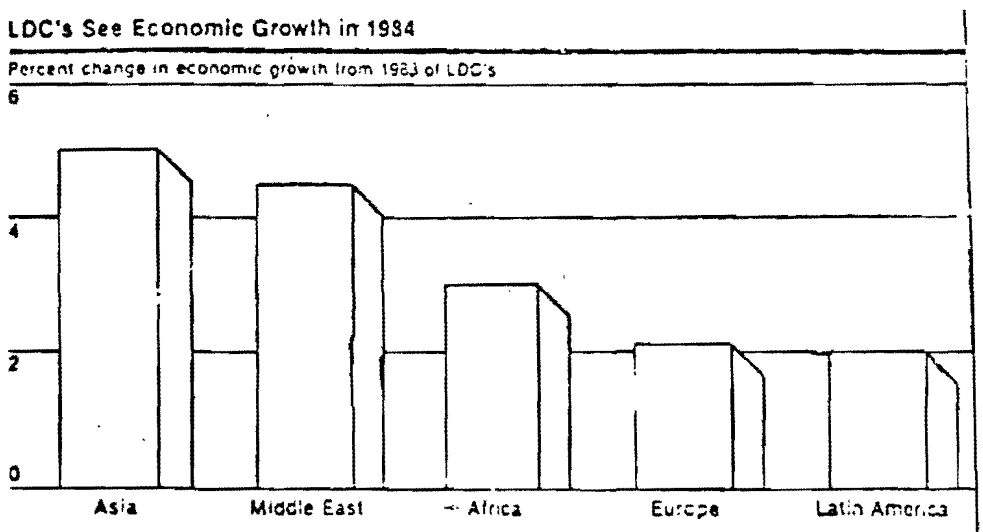
Following three years of recession and downward pressure on living standards, the developing countries as a whole began to recover in 1984. Their economic growth rose 3.75 percent, up from 1.5 percent in 1982-83. While many oil exporting countries failed to keep up their earnings in 1984-85, the non-oil developing countries pushed their growth to 4.5 percent in 1984 from the anemic 2.5 percent in 1982-83. However, growth was highly uneven among developing countries in both 1984 and 1985, and in about half the countries it was still below the rate of growth of population.

The improved overall performance reflected the strength of exports, especially by heavily indebted countries that were making major adjustments. From a decline of 0.6 percent in 1983, their growth rose by over three percent in 1984. The poorest countries and countries with a great dependence on primary commodity exports benefited less from the upturn in the world economy.

Economic growth nevertheless has remained well below the pace that developing countries achieved in the 1960s and 1970s. Asian countries, many of them important exporters of manufactures, reached an excellent average growth of 6.5 percent in 1984 and continued to be largely exempt from the severe difficulties facing other regions. In contrast Sub-Saharan Africa again had growth of only 1.5 percent. Latin America was the swing region, achieving only 2.5 percent growth in 1984. But this was a substantial improvement over the previous year's decline of 3.5 percent in output.

Although developing country growth in 1984 was clearly improved over 1982-83, it was still far below the 5.5 percent growth rate achieved by developing countries in 1976-79 and it failed to intensify during 1985. Trade growth slowed, new capital remained scarce and Japan and Europe did not grow fast enough to exert a pull on the developing countries. Interest rates declined for the developing countries but commodity prices did not strengthen and by yearend oil prices were headed toward a sharp slide.

Declines in oil revenues and bank loans have both led to a reduction of capital formation in the Third World, as shown in lower growth rates in the 1980s. For developing countries as a whole, the share of output spent on investment fell steadily from 26 percent in 1981 to 23 percent in 1984. Investment ratios had risen by about three percentage points between 1970 and the second half of the decade. The investment boom in oil exporting countries accounted for much of this rise and the ready availability of international bank credit led to substantial increases


LDC's See Economic Growth in 1984
Percent change in economic growth from 1983 of LDC's
6
4
2
0
Asia
Middle East
Africa
Europe
Latin America

in capital formation in many other developing countries too. The decline in these external resource flows in the 1980s was not offset by higher rates of domestic savings in developing countries. Thus, investment and economic growth were arrested.

The policies and investment efforts of the developing countries themselves are crucial to their possibilities for future economic growth. At the same time, the potential rate of growth will be strongly conditioned by outside factors: interest rates, the value of the dollar, oil prices, industrialized country growth and the inflow of capital into developing countries.

Interest rates will affect the drain of the debt burden on funds available for investment goods. The value of the dollar will affect both the weight of the debt burden and the prices received for primary products traded in dollars. Economic growth in the industrialized countries directly affects the demand for the exports of the developing countries and their ability to expand imports in support of economic growth. Typically developing country exports and imports expand rapidly when industrialized country growth is strong. The sharp fall in oil prices introduces a unique factor in 1986. Since the developing countries export five times as much oil as they import, the fall in oil prices may make the year a poor one for overall developing country trade and growth. Certainly the consequences are severe for oil exporting countries with large populations and substantial dependence on oil revenues: Mexico, Venezuela, Indonesia, Nigeria. Oil importing countries will enjoy some direct benefits from cheaper oil, among them the strapped economies of sub-Saharan Africa and the Caribbean basin. But for most developing countries the benefit of lower oil prices will come later than 1986 provided the industrialized countries take advantage of lower oil prices to pursue more expansionary policies.

A key question overhanging the growth prospects of the developing countries is where and when they will receive the new infusions of official and private foreign capital that have permitted high imports and rapid growth rates in the psat. Until the answer is clearer, a return to strong growth rates seems unlikely.

GROWTH STRATEGY

The failure of development strategies that were based on international bank credit and expanding debt has forced an examination of longterm approaches in the affected developing countries and has heightened attention to the methods pursued by the more successful developing countries, many of them in Asia. The result is a greater appreciation in multilateral development institutions and in developing countries themselves of "outward looking" growth strategies as a means of raising foreign exchange resources and increasing the efficiency of domestic capital. The

components of such a strategy include a market orientation in pricing, an outward orientation toward trade, attention to dynamic comparative advantage, a regard for income distribution, and maintenance of macroeconomic balance between fiscal and monetary policy.

Economies that allow the market mechanism to set prices and production tend to achieve higher growth than those with controlled prices at artificial levels. Food production, for example, has stagnated in developing countries where there have been artificially low, controlled prices on food. Outward looking economies with broad participation in international trade have grown faster than those which have turned inward and imposed high protection on import-substituting activities. Attention to dynamic comparative advantage aims at achieving a reasonable balance between open free trade on the one hand, and stimulus to industries than can be expected to achieve comparative advantage. Income distribution is a factor in development for expansion of the middle-class and avoidance of excessive subsidy and welfare schemes for the poor. Monetary and fiscal policy balance are particularly important in managing inflationary pressures which will distort economic decision-making and discourge productive investment.

Realistic exchange rates are crucial to the success of an outward-looking development strategy of closer integration with the world trading economy. Overvalued exchange rates, which encouraged borrowing of foreign capital and the flight of domestic capital from many developing countries, were a leading factor in the situation that became a debt crisis. For several years heavily indebted countries will find that policies which encourage exports will contribute more than those that encourage import substitution. Their creditworthiness will be judged by their export-earning capacity. Therefore, foreign exchange earned through additional exports will be more important than foreign exchange saved by import substitution.

By necessity, more developing countries are looking to the export sector to raise the foreign exchange for debt service, to rebuild reserves and to finance economic growth. The trouble with such a strategy as a general prescription for developing country growth is that it can add to the pressures for protection in the importing countries and prolong the oversupply condition that already exists for many commodities in international trade.

Under the foreign borrowing constraints faced by almost all developing countries, their efforts to achieve economic growth require not only raising the rate of growth of foreign exchange earnings but also increasing the growth of domestic output that can be achieved with the available level of foreign exchange earnings. Thus, policies to raise the level of domestic savings and to encourage greater efficiency in investment are fundamental. Price reforms for foodstuffs and domestic manufactures are needed as well as a more efficient allocation of public invest-

ment expenditures. Efforts to raise domestic savings and investment rates through increased taxing and spending by the government all too often resulted in inefficient investments and distorted pricing through price controls, high import duties and overvalued exchange rates. Cutting down government subsidies and inefficient public enterprises would free-up capital for more productive investment, as would an interest rate policy that promotes domestic saving through the financial system.

Unless there is reform of public sector policies and practices, many developing countries will continue to face strong inflationary pressures. Borrowing for government activities is a driving force in developing country inflation. Many governments unable to borrow international private capital have turned to domestic borrowing and the public sector has become even larger in the total economy. Of 131 developing countries for which IMF data are available, there were 32 countries with at least 20 percent inflation in 1984 and 22 with at least 30 percent. In the seven largest borrowing countries, the weighted average inflation rate increased every year from 1978, and exceeded 100 percent in 1984-85.

Most developing countries cannot look to increased flows of official or private foreign financing to support high levels of growth in the near future. Having to look largely to their own earnings and efficiencies to achieve higher growth, they are under increasing pressure to examine such cherished policies as overvalued exchange rates, low priority to investment in agriculture, and excessive government involvement in the production and pricing of industrial and agricultural products.

V. FOOD AND AGRICULTURE

Despite the slowdowns and reversals of the 1980s, the developing countries still have the potential to be the largest and steadiest outlet for US agricultural exports. Without a dismantling of the European Community's agricultural policy, US agricultural sales to industrialized countries cannot grow much and those to Eastern Europe may always be erratic. After 1970, US agricultural exports to developing countries soared from \$2.2 billion to \$15.5 billion in 1984. The roughly forty percent of US agricultural exports sent to the developing countries in recent years accounts for up to two-thirds of their imports of agricultural products. Moreover, the US position in these markets, with an assist from increased credit programs and food aid, has held up better than in other regions in years of declining total US agricultural sales.

High population growth and low nutrition are underlying factors in the potential market in developing countries. Many still have population growth rates of 2.5 to 3.0 percent and per capita food production fails to be maintained in more than 50 countries. Even with a projected slowing of population growth rates, world population will nearly double between 1980 and 2020, with ninety percent of the increase in developing countries. Food and nutrition levels are not high to begin with, ranging from the equivalent of 400 pounds of grain annually per person in the poorest developing countries to a level of 1500 pounds in the first of the developing countries to yet reach the food consumption levels of the industrialized countries. Moreover, while the increases in total food and agricultural production in the developing countries over the last 30 years are truly impressive, increases in per capita food and agricultural production are not. Per capita food and agriculture production of the developing countries has been nearly flat since the late 1970s. An addition of twelve to fifteen percent to developing country food supplies through imports has been a key factor in improved nutrition levels and changing consumption patterns.

Despite an underlying need for food imports, effective demand by developing countries will increase only as fast as purchasing power increases, infrastructure expands and governments are committed to providing it to their people. In the poorest countries, as much as one-half of increased income will be spent on food. But they cannot import much and accounted for only 12 million of the 100 million tons of cereal imported by all developing countries by the early 1980s. Far more important markets are the middle income developing countries.

The top developing countries for US agricultural exports in 1985 -- Mexico (\$1.6 billion), Korea (\$1.4 billion), Taiwan (\$1.3 billion), and Egypt (\$0.8 billion) -- are among the ten largest

country markets worldwide and are followed by such countries as Venezuela, Saudi Arabia, Brazil, Indonesia, Iraq and Hong Kong. No single factor unites these developing countries in their relative importance as US markets. They include oil exporters and importers, debt-burdened and relatively debt-free countries, strong and weak agricultural producers and aid recipients.

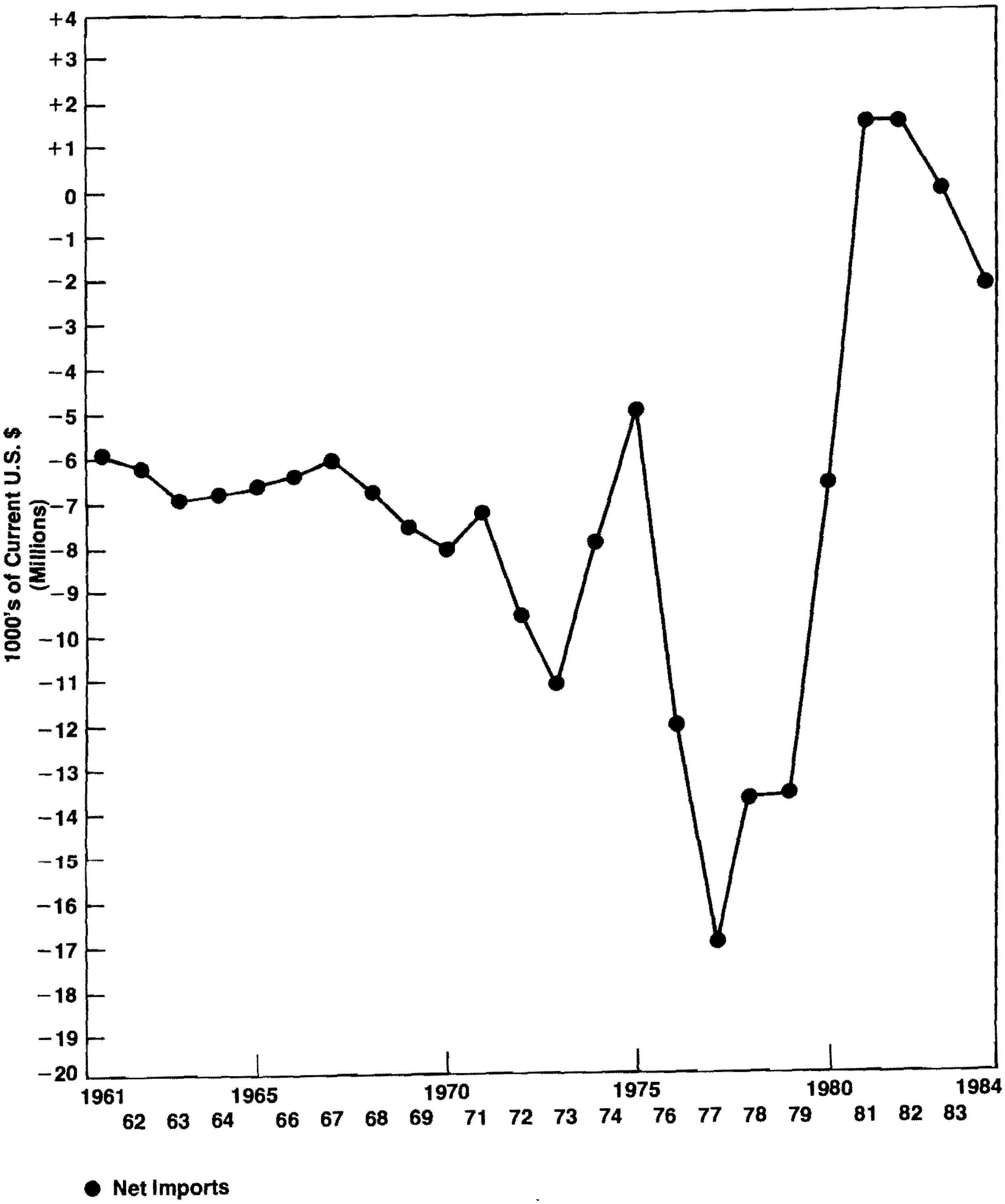
The debt crisis was important among the many factors that threw rapidly growing sales of US agricultural products to developing countries into a slow decline after 1981. The value of these exports to 17 major indebted countries fell 20 percent between 1981-83. The total volume of food imports by countries undergoing debt rescheduling fell by 9 percent from 1981-84 while the volume was still growing substantially in other developing countries with less severe debt problems.

Developing countries are also significant agricultural exporters and provide the US with two-thirds of its agricultural imports. Developing country exports are mainly tropical products but the competition to the US from established developing country exporters -- Argentina, Brazil and Thailand -- and new entrants China and India has hurt in the weak global markets of the 1980s. These successes are not the result of general progress toward food self sufficiency, which is not occurring, nor of general success in agricultural exports by developing countries. On the contrary, the longstanding agricultural trade surplus of the developing countries has vanished in the 1980s too under the impact of weak world demand, oversupply and falling prices.

With a return to economic growth and rising incomes in developing countries, US agricultural exports to them will in all probability rise. But this growth may be slow in coming. It must be financed by their own export earnings or by capital imports. The recent decline in oil export earnings and the continuing effect of the debt problem on new capital flows appear to rule out an immediate recovery in the Third World as a whole.

Food aid and food credits have helped developing countries to retain access to imports of US agricultural products during the 1980s. However, food aid under PL. 480 has been far too constrained by budgets and too dominated by foreign policy priorities and humanitarian concerns to play a strong role in preserving and developing markets in Third World countries. The expanded credit guarantee program has been far more important in retaining the US competitive position and advancing market development. The new authorities in the 1985 Farm Bill could be helpful if implemented promptly to extend intermediate credits, to use government owned commodities for expanded food aid and export enhancement and to make local currency sales in food aid programs for developing countries.

Balance of Total Agricultural Trade 1961-1984
All Developing Countries



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Financial Constraints to Trade and Growth

The World Debt Crisis and Its Aftermath

Mathew D Shane
David Stallings*

INTRODUCTION

From 1975–80, developing countries provided the fastest growing market for U.S. agricultural exports. The share of total U.S. agricultural commercial sales to the Third World grew from 30 to almost 35 percent during this period. These sales were especially concentrated in the middle-income countries. The world recession of 1981–83 abruptly halted their market expansion. Those nations with the most serious debt repayment problems severely curtailed purchases of U.S. agricultural products. For the first time since the thirties, the nature and scope of international debt seriously constrained the international trade and payments systems.

Public awareness of the potential impact of international debt began with Poland's repayment problems in 1981. Shortly thereafter, a series of debt-servicing problems arose in major debtor countries, particularly Mexico, Brazil, and Argentina. However, the rapid and expedient handling of these problems by the International Monetary Fund (IMF), the United States, other major Western governments, and major financial institutions has prevented the initial problem from leading to a greater international financial crisis.

A condition for IMF assistance in averting outright defaults, among other things, is a sharp curtailment of imports. As a result, trade in all farm products, in 1982, fell both in absolute dollar amount and as a percentage of total imports of the developing countries. Furthermore, the U.S. market share of all agricultural exports to the Third World fell from over 28 percent to 25.5 percent.

This report examines what these debt problems mean for world trade and economic growth in the intermediate and longer term and derives the implications of this situation for U.S. agricultural export prospects.[1] Although the risks to the international financial system have been assessed, little analysis has been done on how actions taken to redress the immediate and serious debt repayment problem have affected and will affect international economic growth and trade (4, 6, 7, 8, 14).

This analysis focuses on the debt situation in 93 developing countries which are grouped into the following regions: Africa south of the Sahara, East Asia and the Pacific, Latin America and the Caribbean, North Africa and the Middle East, South Asia, and Europe and the Mediterranean. We also included low-income Africa, low-income Asia, middle-income oil importers, middle-income oil exporters, and major borrowers. These are categories used by the World Bank in its World Debt Tables (28) and World Development Report (29). We have defined two additional groupings: debt-affected countries and

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[1] Much of the data underlying the analysis in this report is presented in (25). Underlined numbers in parentheses refer to references cited in the Bibliography of this report.

developing countries which are major agricultural markets for the United States. Only the regional categories are mutually exclusive.

We did not include all countries classified in the World Bank categories in this study. We excluded several minor countries because of seriously limited available data.[2] However, because these countries make up a small percentage of the total of gross national product (GNP) and trade in goods and services, overall results and conclusions are unaffected.[3] A far more serious omission is that of Poland, which is not included in the World Debt Tables (28) because it is not a member of the World Bank and IMF. Poland is not included in our study because we were unable to obtain comparable data.[4]

International trade will be severely affected by the debt problems of the developing countries for at least the next 5 years. International trade will not significantly increase for the United States or other nations unless both developed and developing countries find fundamental solutions and take aggressive action to overcome this situation. The solution lies in dramatic internal restructuring of the economies of debtor countries and in the restructuring of current debt into more manageable long-term obligations.

BACKGROUND: FACTORS UNDERLYING THE GROWTH IN WORLD DEBT

The oil shock of 1973-74 threw many countries into a balance-of-payments disequilibrium. The fourfold increase in oil prices by members of the Organization of Petroleum Exporting Countries (OPEC) dramatically altered payment flows and the international financial environment, initiating the process by which significant debt was accumulated.

The developed countries employed easy monetary policies both before and after the first oil shock; as a result, economic growth in developing countries continued. The change in trade flows and expansionary monetary policies in the OECD nations generated liquidity previously unavailable to the international financial system.[5] International bankers recycled this liquidity in the form of petrodollar deposits, by beginning a massive lending program to middle-income oil importing countries. These bankers anticipated high returns on investments.

The world economy weathered the first oil crisis without much difficulty. Initial debt levels were low enough that accumulation did not overly burden the world payments system. Furthermore, the infusion of large amounts of international capital into the world economy generated an international expansion led by export growth. For all non-OPEC developing countries, the total dollar value of exports was 2.5 times greater in 1980 than in 1975. Furthermore, real growth in gross domestic product (GDP) for all developing countries averaged 5 percent a year for this period (17).

If the oil price rise of 1973-74 set the stage for the large debt buildup, the second oil shock of 1979-80 set the stage for the world recession of 1980-83. The second oil price increase was more significant than the first one based on the far different policy responses in the developed world. The approach to the 1973-74 increase had been to find ways to recirculate petrodollars and to accommodate the jump in energy costs. The response to the 1979-80 increase, however, was for the major industrial countries to simultaneously undertake contractionary monetary policies. The world inflation that was initiated by the 1973-74 oil increase, but by no means limited to it, proved unacceptable to the West, and Western countries felt that only traditional

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[2] We excluded Burundi, Cape Verde, and Comoros in low-income Africa and Maldives and Vanuatu in low-income Asia.

[3] Except for low-income Africa, the omissions amount to less than 1 percent of the groups' GNP.

[4] Estimates from the Bank for International Settlements (BIS) and Organization for Economic Cooperation and Development (OECD) sources put Poland's total debt in 1982 at about $20 billion (2, 23).

[5] The shift to a floating exchange rate system for major currencies also contributed to the rise in world liquidity by reducing the overall demand for foreign exchange reserves.

measures could deal with the inflation.[6] The sudden lowering of monetary growth sharply slowed the world economy, raised real interest rates, and made the debt a burden. The impact of the responses to the second oil shock induced the current repayment problems.

Monetary Policy in the Developed Countries

The growth in money following the oil price increase in 1979-80 differed sharply from that in 1973-74 (fig. 1). This represented an abrupt policy reversal in the United States and other major countries of the industrial world.

For developed countries as a whole, money (M1) increased at average annual rates of over 10 percent from 1971 to 1973, providing considerable liquidity for the raw-material price increases of 1972-74. This rise was followed by a slowdown in the growth of money in 1974.[7] From 1976 through 1979 annual increases in money again averaged 10 percent. However, the oil price increases in 1979, were followed by 3 years of declining monetary growth. Furthermore, the rates of increase in money from 1979 through 1982 were all below that observed in 1974.

The growth rates in money during the seventies were high by postwar standards, giving the developing world two important benefits: increased demand for all goods and services and low real rates of interest. Rising inflation in the industrial West, as a consequence of the rapid money growth, gave a competitive edge to products in the developing world, especially labor-intensive semifinished and finished manufactured goods. Second, high growth rates in money depressed real interest rates, especially in the United States, making repayments easier.

The decline in monetary growth rates from 1979 through 1981 produced the severest of the postwar recessions. For industrial countries, real GNP growth fell well below 2 percent for 1980 and 1981. Real output stagnated in the industrial countries in 1982, compared with relatively robust growth rates, exceeding 3.5 percent per year, for most of the latter half of the seventies. The slow rise in income effectively curtailed demand for products of the previously burgeoning export sectors of the developing world.

Interest Rates

Market interest rates have grown in importance in loan repayments over the past 5 years. Loans extended at variable interest rates, based on the U.S. prime rate or the London Interbank Offered Rate (LIBOR), have become more and more popular as private creditors take an ever-larger share of total lending to developing countries. In particular, the rise in interest rates on dollar-denominated loans has contributed to the difficulties of countries like Mexico and Brazil in repaying their debts.

Real interest rates incorporating price changes provide a measure of the current opportunity cost of repaying debts. The U.S. real interest rate is derived by subtracting current inflation from nominal interest rates. The appropriate measure for debtor countries is the interest rates adjusted for changes in an index of their export prices. If export prices rise faster than contracted interest rates, the real rate is negative (20).

The effect of the first oil price increase is most evident in the 1973-74 values, when the rapid increase in export prices in all categories clearly exceeded nominal market interest rates (fig. 2). These increases were sharpest, producing the lowest of the real interest rates in the oil-exporting countries (fig. 3) and in North Africa. The major agricultural market countries for the United States faced highly negative interest rates while low-income African countries faced the least favorable situation (fig. 3). Negative interest rates strongly encouraged the desire to both borrow and lend, because real rates of return were somewhat higher in creditor currencies.

[6] 1973-81 was a period of general price increases for raw materials, not only for oil. Although other resources did not, in general, increase in value as drastically as did oil, their increases were nonetheless dramatic. Examples, for the period 1972-80, include a quadrupling of the dollar prices of bauxite and rubber, a tripling of prices for aluminum and coffee and a doubling of prices for nickel, copper, and manganese (18).

[7] This slowdown produced a temporary rise in real interest rates in 1975.

Figure 1
Changes in Money Supply (M1)

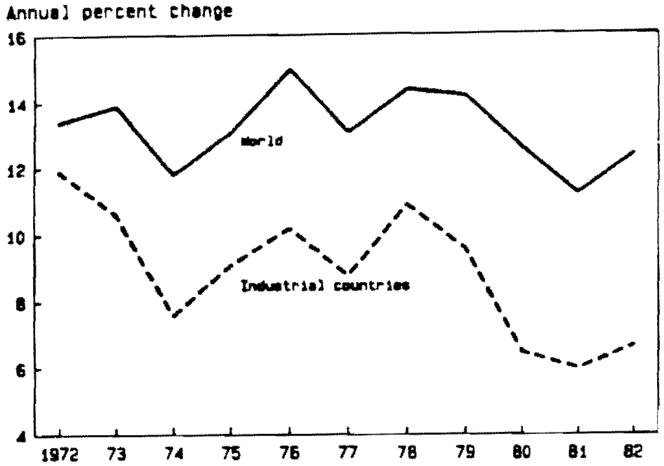


Figure 2
Interest Rates Adjusted by Change in Export Prices

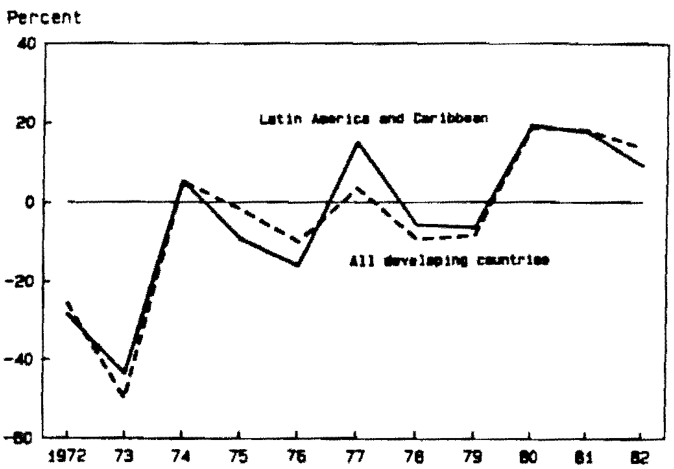


Figure 3
Interest Rates Adjusted by Change in Export Prices

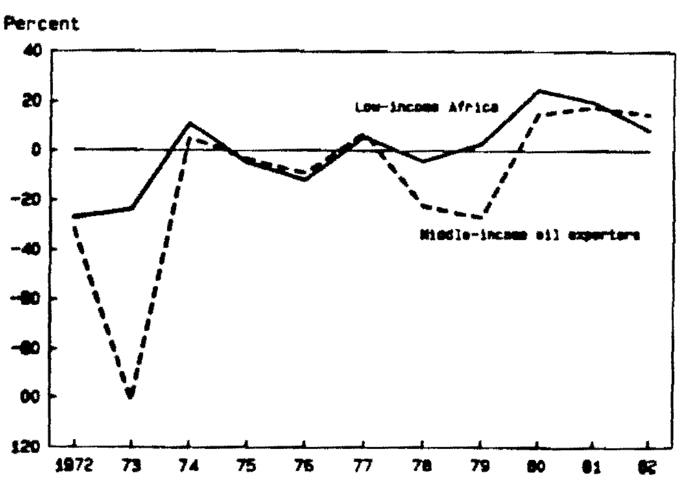


Figure 4
Interest Rates Adjusted by Change in Export Prices, Period Averages, All Developing Countries

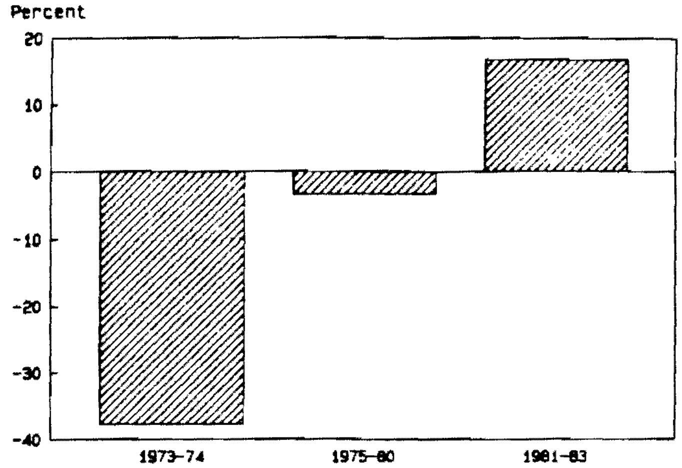


Figure 5
Real Exchange Rates Weighted by Agricultural Trade

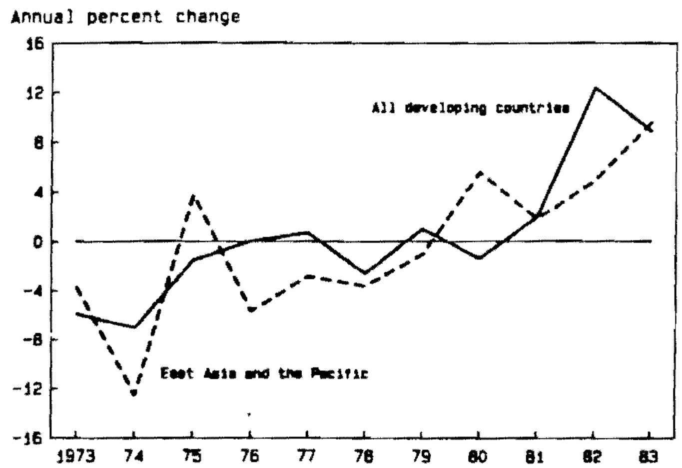
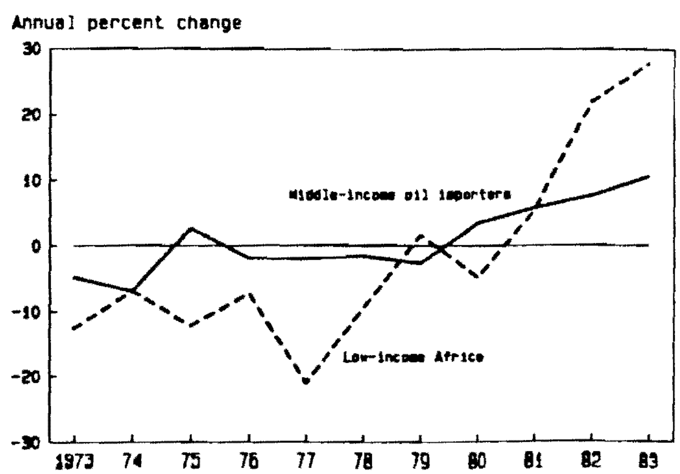


Figure 6
Real Exchange Rates Weighted by Agricultural Trade



The effects of monetary policy changes in the industrial countries during the seventies can be clearly seen in figures 2-3. Declines in the monetary growth rate in 1974 and in 1977 produced positive real interest rates in 1975 and 1978, the only 2 years between 1973 and 1979 when this happened.

The sharpest increases in real interest rates in 1978 occurred in Latin America and the countries in the debt-affected group (fig. 2). Repayment problems proved most severe in these countries. Real interest rate changes during the seventies showed the greatest variability in low-income Africa.

Comparing the outcomes for 1973-74 and 1979-80 yields quite different results (fig. 4), a reflection of the change in policy response by the developed world. The second round of oil price rises led to overtly negative real interest rates in 1979-80. However, the interest rates in the latter period, in absolute terms, did not approach those in 1973-74. This was particularly true for the groupings of All Countries, Major Borrowers, Major Markets, and East Asia and the Pacific. From 1981 into 1983, real interest rates faced by all developing countries not only turned positive, but remained well above any rates in recent history.

From 1975 to 1980, real interest rates averaged a negative 3 percent. From 1981 to 1983, the average jumped over 20 points, to plus 17 percent.

Real interest rates after the second oil shock were not negative as they had been following the 1973-74 oil price increase. Continued and rapid debt accumulation indicates that the major borrowers and oil importers probably anticipated negative interest rates. Loans initiated in the 1979-81 period, especially indicated by the increase in short-term liabilities in 1980, resulted in repayment schedules which borrowers could not meet. The recession in the West and the resulting fall in export prices forced countries to make unanticipated and increasing real payments as interest rates, particularly on dollar loans, edged upward.

The Foreign Exchange Value of the Dollar

The real depreciation of the U.S. dollar that occurred against the aggregate of currencies of the 93 countries, from 1972 through 1980, has completely reversed in the past 3 years (fig. 5). The U.S. dollar, in real terms, is at its highest level against the currencies of the developing world since the collapse of the Bretton Woods exchange rate system in 1973.

The Federal Reserve's monetary restraint policy and the rapid rise in the U.S. budget deficit produced historically high real interest rates in the United States. This led to significant real capital inflows to the United States during this period, in sharp contrast to the outflows over much of the seventies. Some of that investment unquestionably came at the expense of the developing world.

The U.S. dollar generally appreciated against currencies in the developing world during the seventies. The dollar experienced sustained weakness against the currencies of the middle-income oil-exporting countries in 1972-75, low-income African countries in 1972-80, and East Asian countries in 1976-80 (figs. 5-7). After 1980, however, the foreign exchange value of the dollar increased exponentially against currencies of the developing countries, the only exceptions being the nations of Asia (both South and East Asia) and North Africa. The dollar's nominal appreciation since 1980 has been most rapid against the currencies of Latin America, the debt-affected countries, and Europe and the Mediterranean (fig. 8). This can be seen clearly by looking at the pattern of annual percent changes in real exchange rates (fig. 9).

Developed countries use exchange rates, either intentionally or unintentionally, as policy instruments (11). Very few of the developing countries' currencies float freely in foreign exchange markets, as is the case with the currencies of industrial countries. Instead, the governments of most developing countries fix the value of domestic currency to one or more major currencies (such as standard drawing rights from IMF). Exchange rate movements, generally, are abrupt and disrupt both the external and domestic economy. Most adjustments occur at infrequent intervals and as the result of severe external pressure. For a currency to depreciate, or for a government to undertake such a strong measure, the sum of export earnings plus new financing must be below the sum of imports plus debt repayments for a long period. Foreign exchange reserves may have also

Figure 7
Real Exchange Rates Weighted by Agricultural Trade

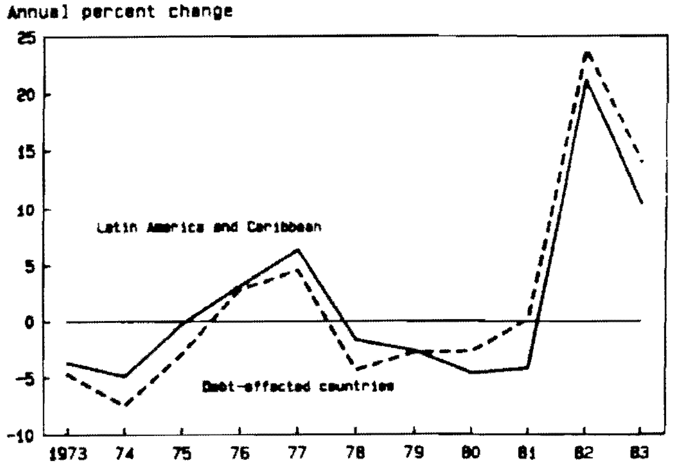


Figure 8
Nominal Exchange Rates Weighted by Agricultural Trade, Debt-Affected Countries

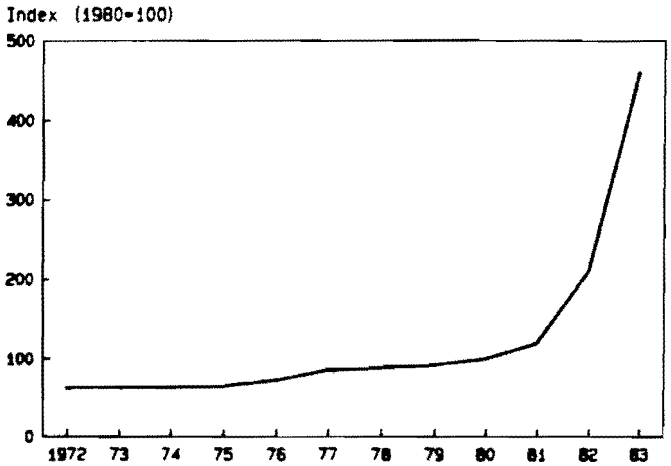
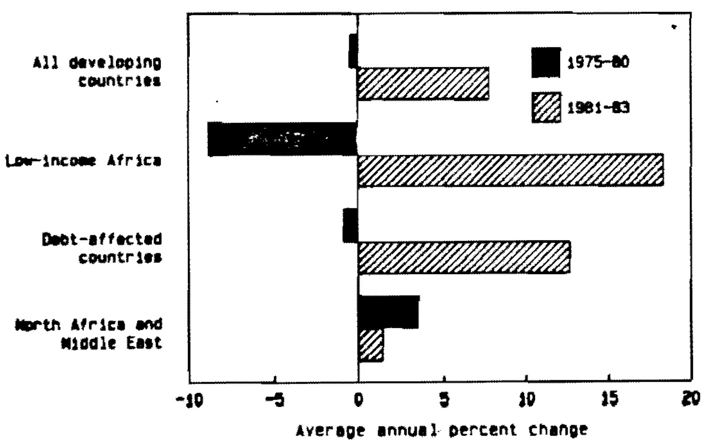


Figure 9
Real Exchange Rates Weighted by Agricultural Trade



fallen below desired levels.[8] In 1982, financing flows began to fall. Devaluation became necessary to encourage exports.

Debt-affected countries and Latin America both had real currency depreciations of over 20 percent in 1982. Such a significant adjustment implies a serious constraint to purchasing imports or repaying debts or both. Domestic adjustments to such an exchange rate change would have to be substantial. On the other hand, the depreciations would also indicate the degree to which the currencies were allowed to remain overvalued for a long period of time. Such an overvaluation encourages imports of goods and services which generate development.

Comparing exchange rate changes between the 1975-80 period and the 1981-83 period also illustrates the significantly different policy responses to the first and second oil shocks. Whereas, the dollar declined in relative value against all developing countries' currencies with the exception of North Africa and the Middle East, it rose significantly on average in the 1981-83 period.

Generally, then, the debtor nations were caught in a difficult situation. They had taken U.S. dollar-denominated loans that they thought would continue to depreciate in real terms. Instead, they were faced with loan principals increasing in real value, along with rising real interest payments.

Current Account Deficits

A major factor associated with debt accumulation by developing countries during the seventies was an increase in trade deficits. External financing allowed governments to pursue policies which allowed imports to exceed exports. In 1981 and 1982, the percentage increase in exports for the 93 developing countries was much lower than in the preceding 5 years (fig. 10). It is likely the decline in the export growth rate in 1981 led to reduced financing in 1982, which explains the 1982 drop in imports. Countries restricted imports as a response to curtailed capital inflows.

The most severely affected region appears to be low-income Africa (fig. 11). Both imports and exports, measured in current dollars, declined over 1981 and 1982. Low-income Asia, on the other hand, appears to have adjusted quickly to its external constraints (fig. 12). The drop in exports in 1981 was accompanied by a stagnation in imports and a subsequent reduction in the deficit in 1982. The oil-exporting countries also faced trade deficits, despite the 1978-79 petroleum price increases (fig. 13).[9] Sub-Saharan Africa faced further deterioration in its external accounts, as exports fell faster than imports in 1981 and 1982 (fig. 14). Latin America also had declines in both exports and imports in 1982, but succeeded in narrowing its overall payments gap (fig. 15).

Figures 16-21 are measures of real trade volume, based on import and export values in dollars. Changes in the real trade deficits indicate whether cutbacks or expansions have occurred in exports or imports or both. Real trade deficits give some indication of the effects of the world recession on unit trade prices, when compared with the dollar trade flows.

The export volume for all 93 countries (fig. 16) increased faster in 1982 from 1981 than in any other year-to-year period during the period studied. For the aggregate of all developing countries, foreign exchange constraints led to implicit or explicit policies that forced export promotion. Import quantities also increased, but more slowly than at any time in the 1974-82 period. Efforts to reduce external disturbances therefore affected both exports and imports.

Import volume has been declining in low-income Africa since 1977 (fig. 17), indicating the poor ability of these countries to produce income from trade. Oil importers (fig. 18) have also curtailed imports since 1979 in forced efforts to find and use petroleum-saving energy sources. Countries known for labor-intensive production, such as in East Asia and the Pacific (fig. 19), have seen a sharp rise in exports. Export volume has also

[8] In fact, foreign exchange reserves in Mexico dropped to zero in 1982, effectively halting all foreign trade.

[9] The only OPEC countries included are Indonesia, Nigeria, Venezuela, and Algeria. Other OPEC countries did maintain current account surpluses over the period.

Trade in Goods and Services

Figure 10
All Developing Countries

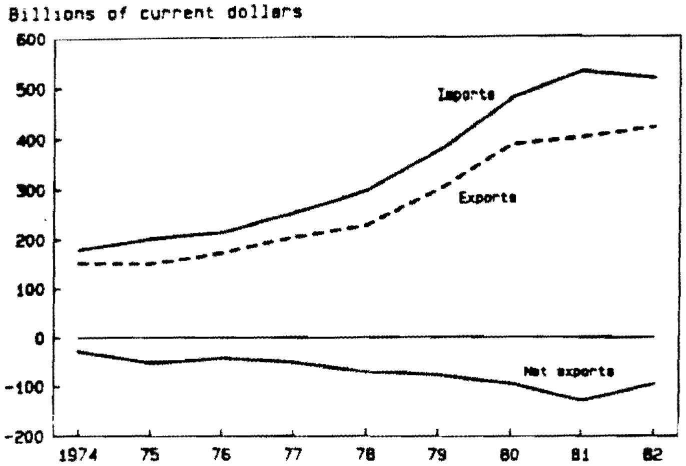


Figure 11
Low-Income Africa

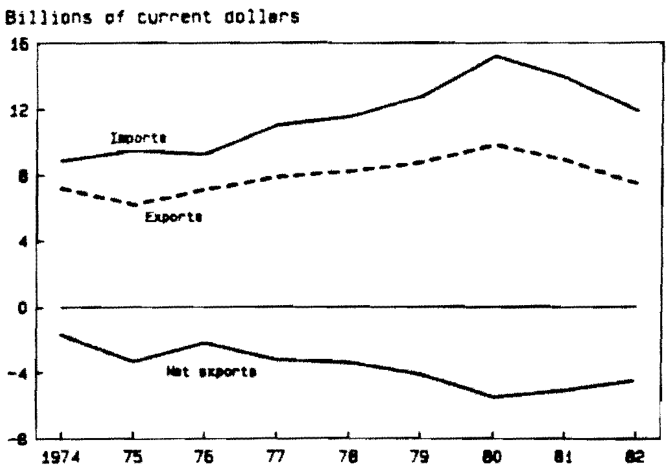


Figure 12
Low-Income Asia

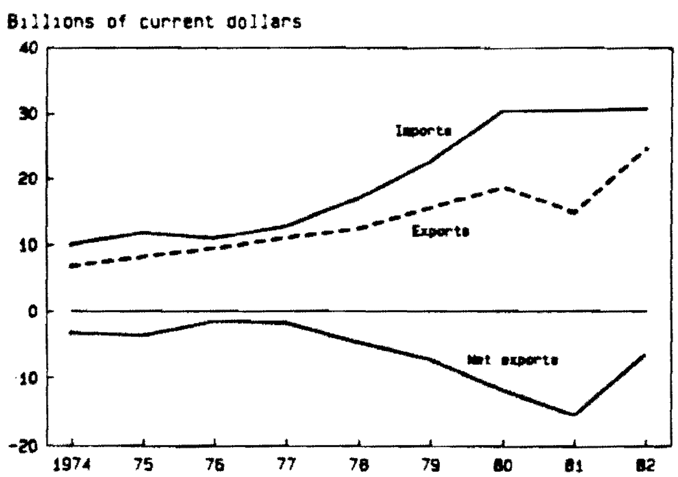


Figure 13
Middle-Income Oil Exporters

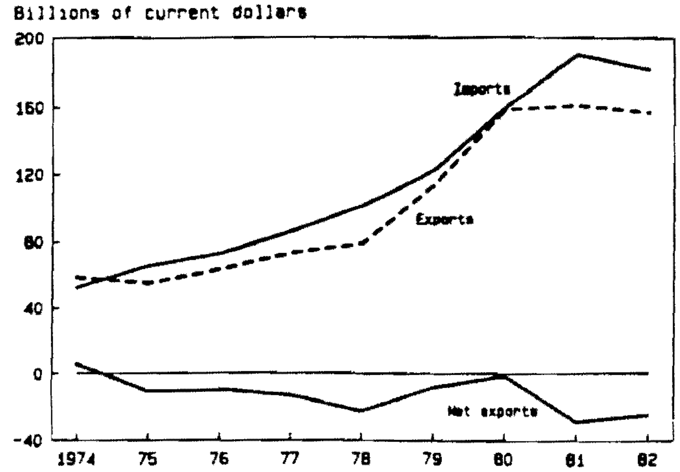


Figure 14
Africa, South of the Sahara

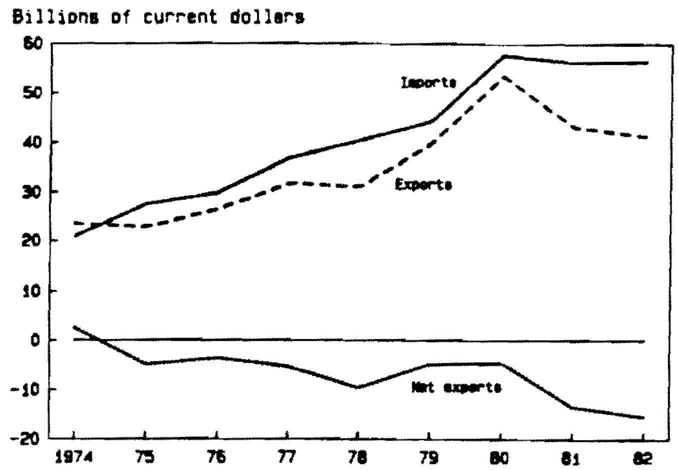
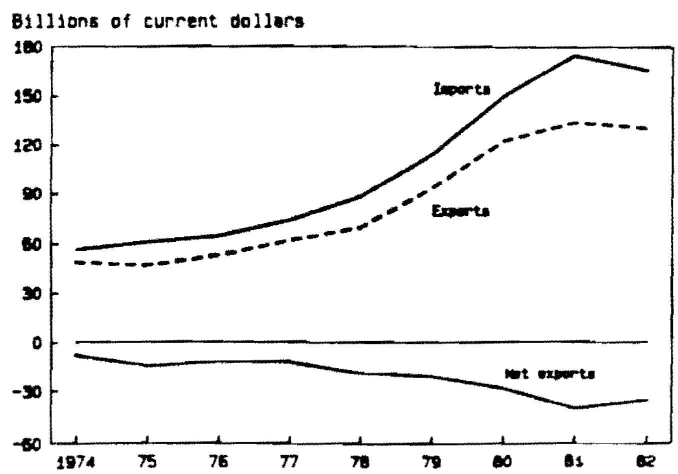


Figure 15
Latin America and Caribbean



Real Trade in Goods and Services

Figure 16
All Developing Countries

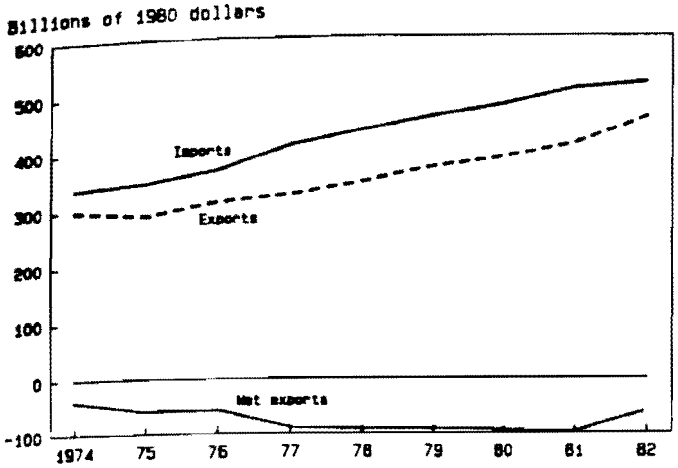


Figure 17
Low-Income Africa

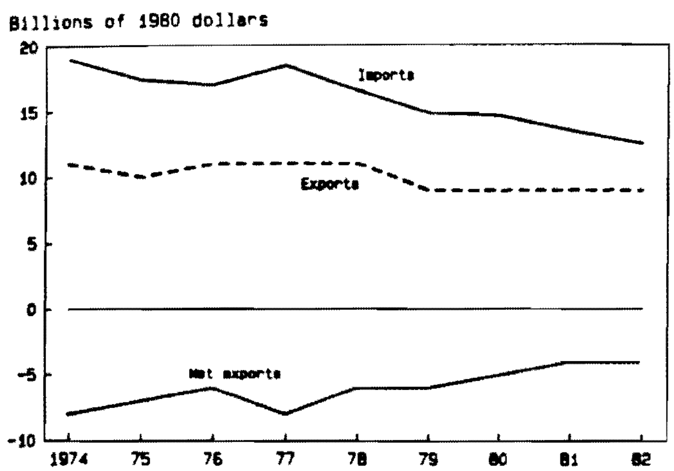


Figure 18
Middle-Income Oil Importers

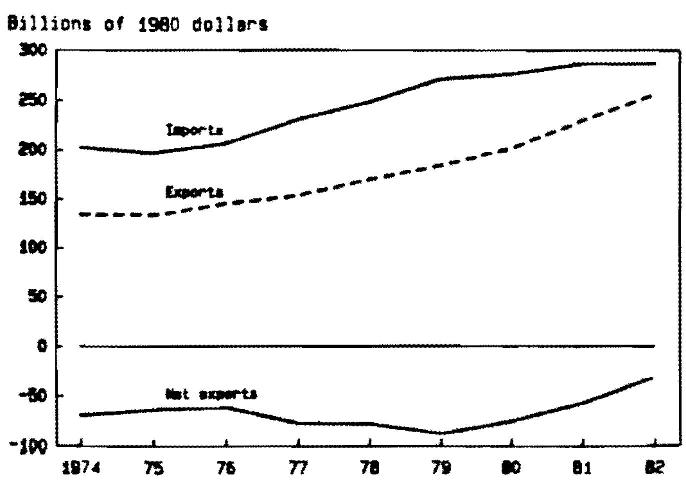


Figure 19
East Asia and the Pacific

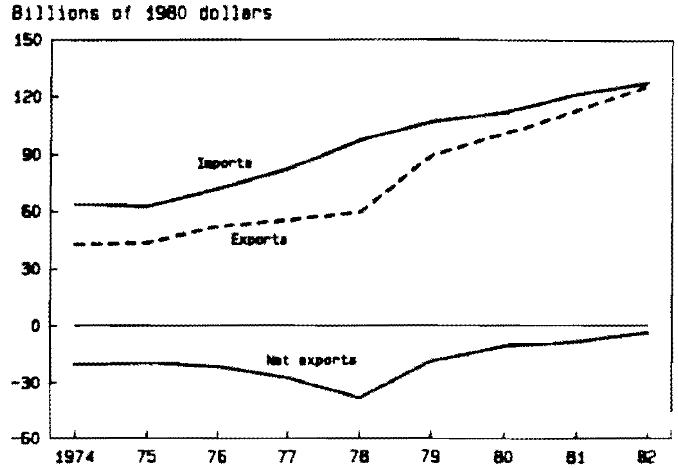


Figure 20
Latin America and Caribbean

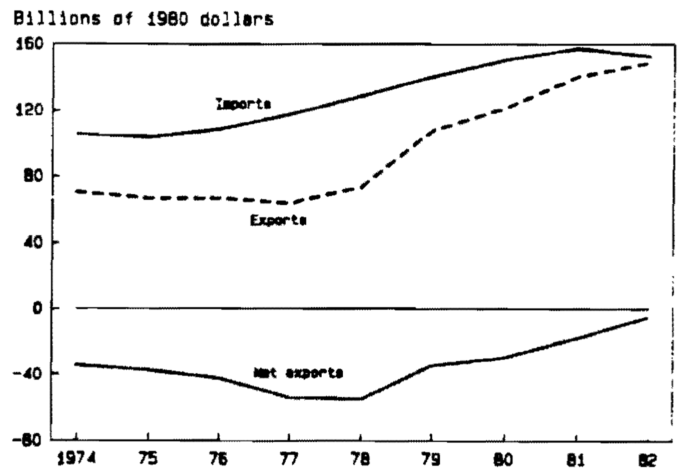
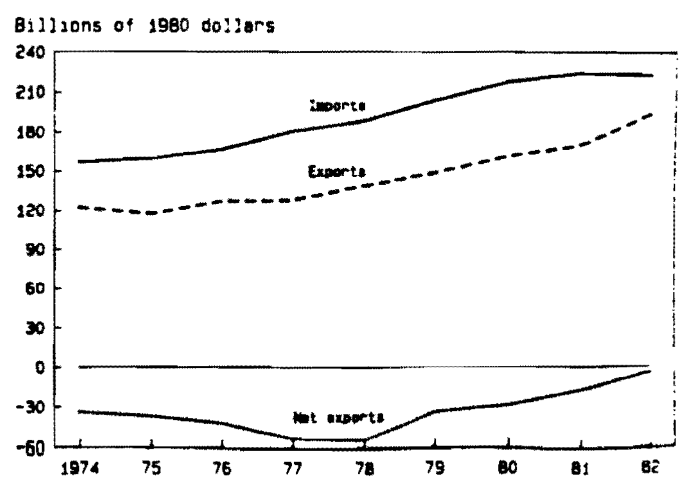


Figure 21
Debt-Affected Countries



risen rapidly, since 1978, in Latin America (fig. 20). As might be expected, the debt-affected countries (fig. 21) have also made strong efforts at increasing exports. Export volume increased from 1981 to 1982 in percentage terms at 1.5 times the average high over 1974-81.

Government Financing

Since 1972, the governments of the 93 developing countries have generally followed a policy of deficit financing: total domestic revenues from taxation have been consistently less than total expenditures (fig. 22). The shortfall in government revenues must be generated by the use of government finance techniques such as borrowing.

Government deficits declined from 1975 to 1979 in debt-affected countries as a proportion of total expenditures (fig. 22). However, the increase from 1979 to 1981 was even greater. The slight improvement in 1982 implies a general cutback in government services as availability of external financing began to fall off. Major market countries for U.S. agriculture also experienced an equally sharp decline in government revenues in 1980 and 1981 (fig. 22).

The sharpest drop occurred in Sub-Saharan Africa, with revenues falling from almost 81 percent to just below 73 percent of expenditures in 1 year (fig. 23). Similarly, in Latin America, revenues declined from 93 percent to 85 percent over 2 years. In contrast, the countries in East Asia and the Pacific have had virtually no change in revenue percentage over the 6 years between 1976 and 1982, with revenue remaining near 88 percent of government expenditures (fig. 23).[10] The variation in the relative government deficit was largest in the categories of oil exporters, major borrowers, and major markets (figs. 22 and 23). The governments of East Asia clearly demonstrated more fiscal restraint than those of other developing countries.

Government deficits as a proportion of GDP also reveal an interesting pattern. For all developing countries, deficits as a percentage of the percent of deficits to GDP increased in 1980 and 1981, but not as much as in 1975 and 1976 (fig. 24). However, two of the country groupings, Latin America and the middle-income oil importers, had government deficits which were a larger proportion of GDP in 1980 and 1981 than in 1975 and 1976. In both situations, the source of funds to finance the government deficits had to be money creation.

Inflation

Domestic inflation accelerated sharply in each country grouping beginning in 1980, with the notable exception of East Asia and the Pacific. The fastest increases occurred in the oil importing countries (fig. 25) and Latin America, the two groupings noted in the previous section as having the sharpest increases in the ratios of government deficit to GDP. Major borrowers and debt-affected countries also experienced a doubling of domestic prices in 1983, with significant increases in the previous 3 years.

Figure 26 shows average rates of consumer price increases in each of two periods, 1975-80 and 1981-83. For all 93 developing countries, the rate of inflation was 3.5 times higher in 1981-83 than in 1975-80. Price increases averaged four times higher for oil importers, major borrowers, and debt-affected countries. Consumer prices rose three times as fast in Latin America, where price increases were already the highest of any country category. The countries of East Asia and the Pacific, however, had lower average consumer price increases in 1981-83 than in 1975-80.

Domestic inflation in countries with tightly controlled foreign exchange regimes acts as a tax on exports and could lead to contractions in the export sectors of many developing countries. It further tends to slow the development process by reducing the incentives for real investment from domestic sources.

Terms-of-Trade

The sustained decline in net barter terms-of-trade from 1978-83 and the stagnation in the income terms-of-trade reflect pressure on the trading sectors in the

[10] We excluded the Philippines, however, because data consistent with other countries in the region were unavailable.

Figure 22
Deficit Financing as a Ratio of Government Revenue to Expenditure

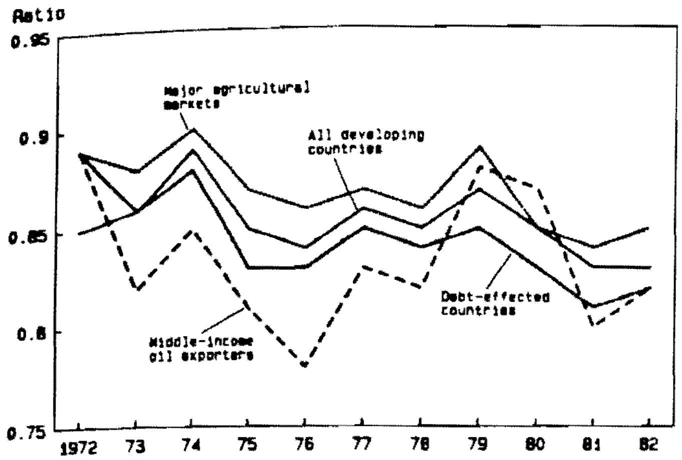


Figure 25
Consumer Price Indices Weighted by Gross National Product

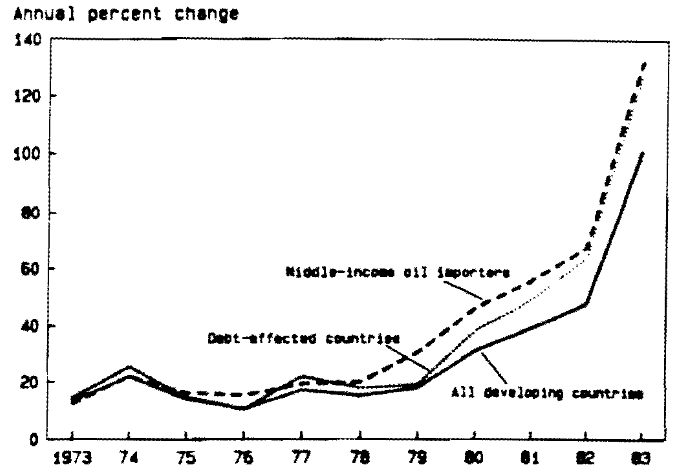


Figure 23
Deficit Financing as a Ratio of Government Revenue to Expenditure

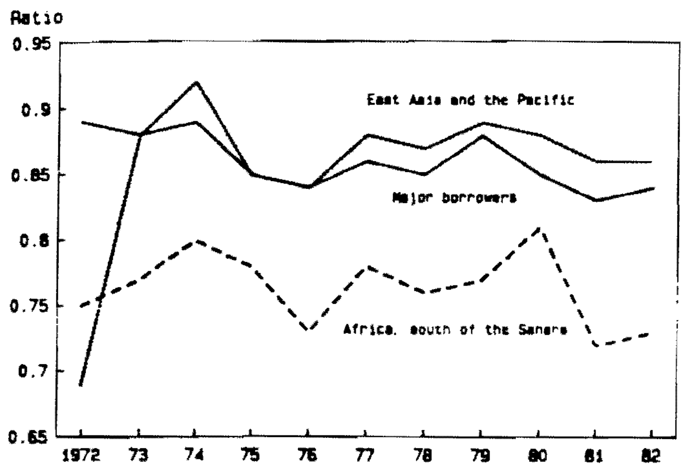


Figure 26
Consumer Price Indices Weighted by Gross National Product

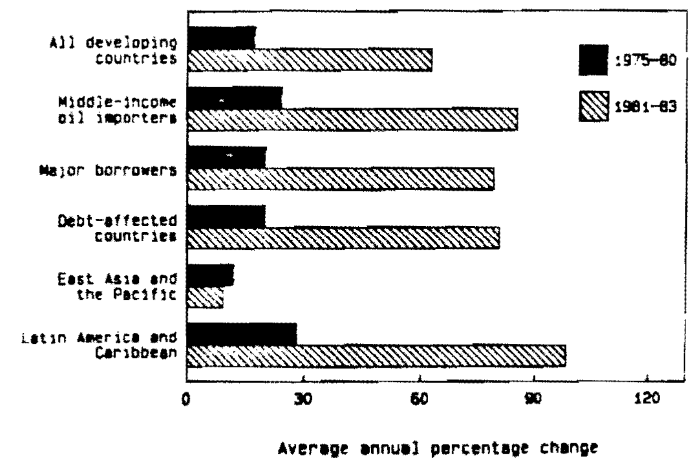


Figure 24
Government Deficits as a Percent of Gross Domestic Product

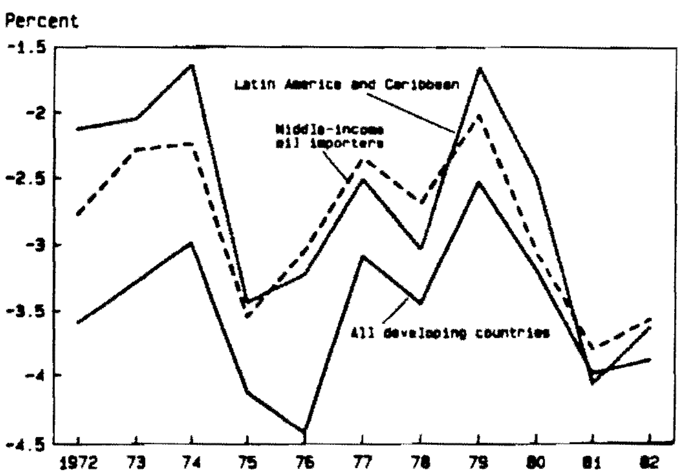
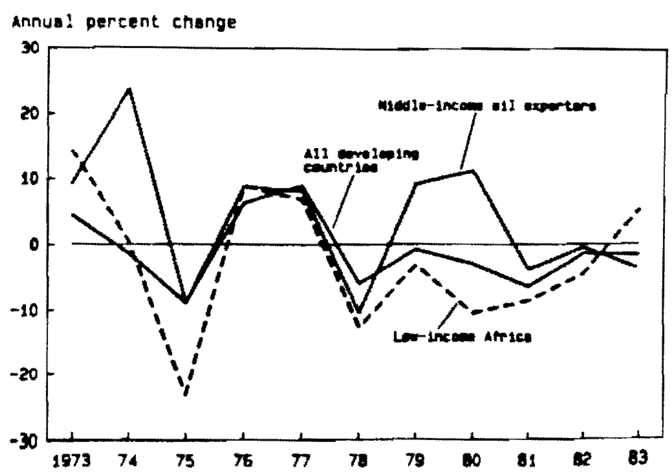


Figure 27
Barter Terms of Trade



developing world (figs. 27 through 30).[11] These are partially due to changing external circumstances as well as internal conditions. The recession in the West led to a slowdown in the rate of growth, and then decline, in exports and export prices. Export promotion policies also served to raise the volume of exports, as well as contribute to lower unit prices.

The largest cumulative declines in barter terms-of-trade into 1982 included low-income Africa, Latin America, and the debt-affected countries. The last group clearly shows the effects of the oil price increases in 1973 with declines in the barter terms-of-trade in 1974 and 1975, but followed by increases in 1976 and 1977. The fall in the barter terms-of-trade after the oil shock of 1978-79 shows no such recovery. The cumulative rise was greatest in the oil-exporting countries. The oil-exporters and the oil-exporting region of North Africa and the Middle East had the only rise in net barter terms-of-trade over the same period.[12]

Latin American countries showed the largest 1-year change in barter terms-of-trade, moving from a 15-percent increase in 1977 to a minus 15 percent the following year. No other region closely approached such variation.

Declining export growth along with falling commodity prices provided the impetus for the slowdown in the gains from trade beginning in 1981. The declines in low-income Africa and Sub-Saharan Africa countries indicate the severe negative impact of external shocks on countries whose trading sectors are both very small as a proportion of GNP and inflexible in terms of commodity composition and market share. Very sharp declines in the growth rate of income terms-of-trade are also evident in Latin America and the debt-affected countries. All categories (except low-income Africa) had increases in the income terms-of-trade from the first oil price increase through 1980.

In sharp contrast, the countries of East Asia and the Pacific had sustained increases in their income terms-of-trade, with the exception of 1975. These countries do have large and diverse external sectors which adjust well to external conditions. On average, exports account for 41 percent of GNP in that region, with several countries having even larger proportions. East Asia and the Pacific also had the second lowest variation in changes in barter terms-of-trade (after Europe and the Mediterranean); import and export prices remained more predictable and conducive to stability. The other countries with fairly positive external sectors, as measured by the income terms-of-trade, are in Europe and the Mediterranean and middle-income oil importers.

DEBT RESCHEDULING: SYMPTOMS OF WORLD DEBT PROBLEMS

An assessment of the number and type of debt reschedulings that have occurred in the post-Korean period indicates the symptoms of the problem.

Figure 31 summarizes debt reschedulings since 1956. In the period through 1965, there were eight negotiations involving four countries and a total of slightly more than $2 billion.[13] Between 1966 and 1975, seven countries engaged in 22 negotiations involving $6 billion.[14] In the next period, 1976-80, 11 countries rescheduled debt in 23 negotiations with a total of approximately $13.5 billion at stake.[15] Finally, between 1981 and 1983, 25 countries were involved in 38 negotiations

[11] The net barter terms-of-trade is defined as the ratio of import to export prices while the income terms-of-trade is defined as the product of the net barter terms-of-trade and the quantity of exports (17).

[12] The Sub-Saharan African countries show a similar increase, but the weights are dominated by the oil-exporting countries of that region: Nigeria, Gabon, Cameroon, and Congo.

[13] The four countries between 1956-65 were Argentina, Turkey, Brazil, and Chile.

[14] The seven countries between 1966-72 were Cambodia, Chile, Ghana, India, Indonesia, Pakistan, and Peru.

[15] The 11 countries between 1976-80 were Bolivia, Jamaica, India, Liberia, Nicaragua, Peru, Sierra Leone, Sudan, Togo, Turkey, and Zaire.

Figure 28
Barter Terms of Trade

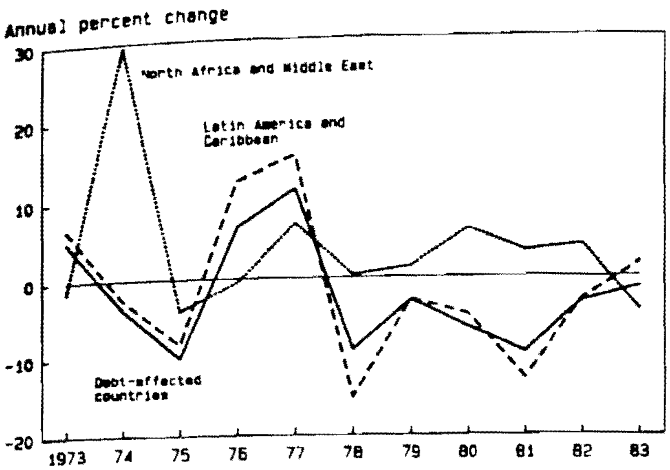
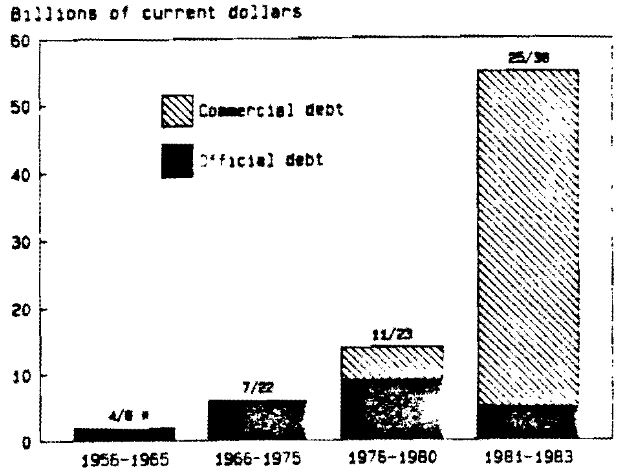


Figure 31
Debt Rescheduling and Negotiations for All Developing Countries



* Countries/Negotiations

Figure 29
Income Terms of Trade

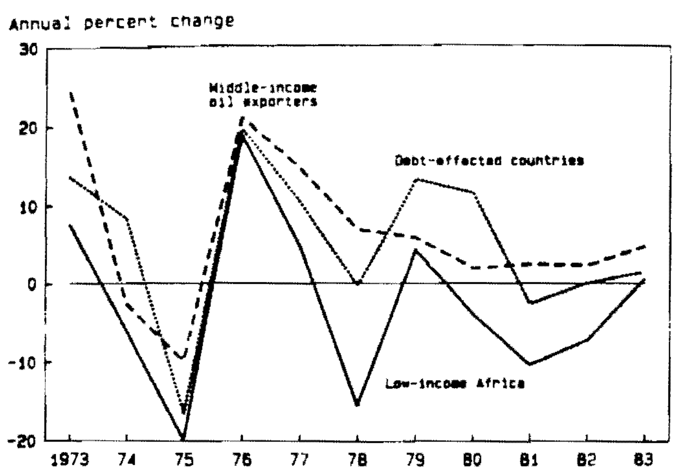
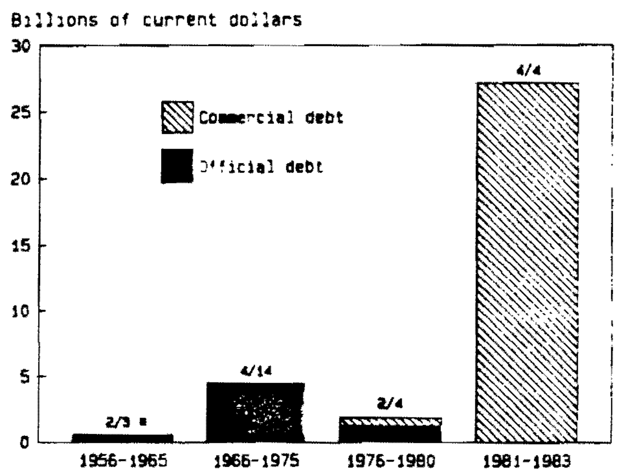


Figure 32
Debt Rescheduling and Negotiations for Major Agricultural Markets



* Countries/Negotiations

Figure 30
Income Terms of Trade

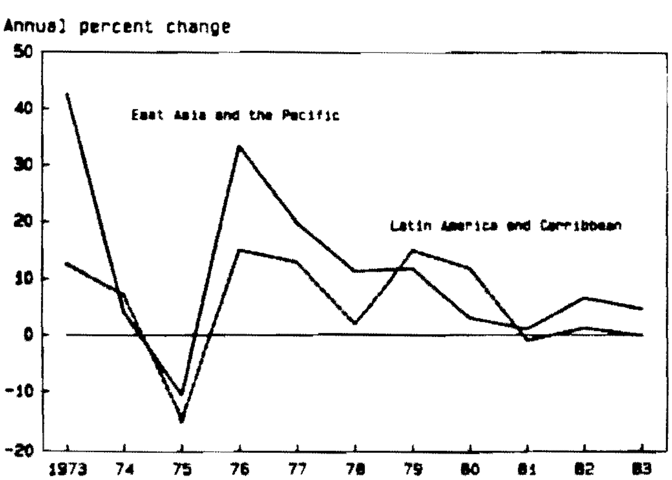
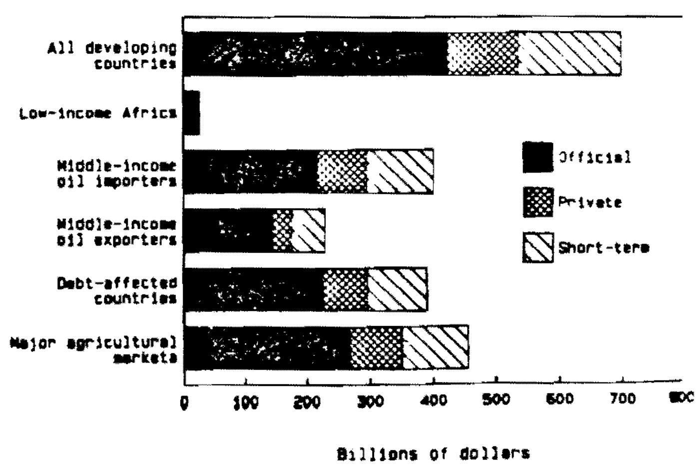


Figure 33
Debt Structure, Country Categories, 1982



totaling $55 billion.[16] This pattern appears to be continuing and the current prospects of rising interest rates could make things even worse.[17] With regard to the issue of U.S. agricultural exports, our major trading partners accounted for 50 percent of the debt affected by negotiation in 1981-83 (fig. 32).

The seriousness of the current situation is best illustrated by considering the degree of bank capital at risk with the major indebted developing countries (3). The 15 largest U.S. banks, on average, have more than 100 percent of their bank capital at risk with the five major Latin American borrowers alone (table 1). Significant country defaults would put the solvency of the major world banks in question. Furthermore, because of the interrelatedness of the international bank portfolios, a series of defaults would place the entire international financial and payment systems supporting international trade at risk. The problems faced by Continental Illinois, one of the 15 banks, is but a small indication of what it would take to keep the system going.[18]

Table 1—Loans by major banks to selected Latin American countries as of end 1982

Bank	Debtor country					Total	Bank capital
	Argentina	Brazil	Mexico	Venezuela	Chile		
	Percent of bank's capital [1]						Million dollars
Citibank	18.2	73.5	54.6	18.2	10.0	174.5	5,989
Bank of America	10.2	47.9	52.1	41.7	6.3	158.2	4,799
Chase Manhattan	21.3	56.9	40.0	24	11.8	154.6	4,221
Morgan Guaranty	24.4	54.3	34.8	17.5	9.7	140.7	3,107
Manufacturers Hanover	47.5	77.7	66.7	42.4	28.4	262.8	2,592
Chemical	14.9	52.0	60.0	28	14.8	169.7	2,499
Continental Illinois	17.8	22.9	32.4	21.6	12.8	107.5	2,143
Bankers Trust	13.2	46.2	46.2	25.1	10.6	141.2	1,895
First National of Chicago	14.5	40.6	50.1	17.4	11.6	134.2	1,725
Security Pacific	10.4	29.1	31.2	4.5	7.4	82.5	1,684
Wells Fargo	8.3	40.7	51.0	20.4	6.2	126.6	1,201
Crocker National	38.1	57.3	51.2	22.8	26.5	196.0	1,151
First Interstate	6.9	43.9	63.0	18.5	3.7	136.0	1,080
Marine Midland	NA	47.8	28.3	29.2	NA	NA	1,074
Mellon	NA	35.3	41.1	17.6	NA	NA	1,024
Irving Trust	21.6	38.7	34.1	50.2	NA	NA	966
First National Boston	NA	23.1	28.1	NA	NA	NA	800
Interfirst Dallas	5.1	10.2	30.1	1.3	2.5	49.2	787

NA = Not available.

[1] Bank capital includes shareholders' equity, subordinated notes, and reserves against possible loan losses.

Source: (3).

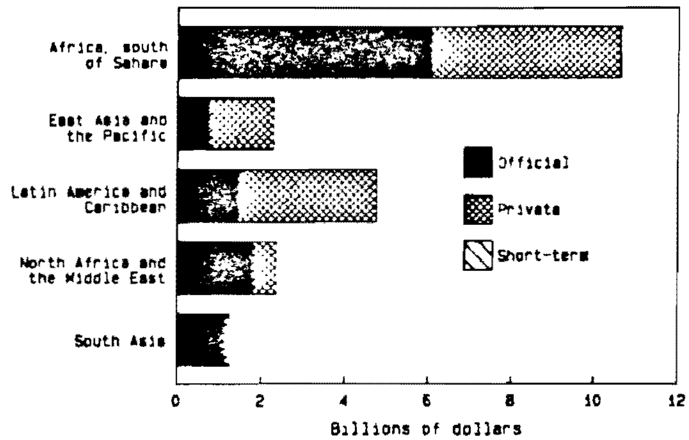
[16] The 25 countries between 1981-83 were Argentina, Bolivia, Brazil, Central African Republic, Chile, Costa Rica, Cuba, Ecuador, Guyana, Jamaica, Liberia, Madagascar, Malawi, Mexico, Nicaragua, Pakistan, Poland, Romania, Senegal, Sudan, Togo, Turkey, Uganda, Yugoslavia, and Zaire.

[17] Martin Feldstein argues that "a rise of two percentage points or more might make current financial arrangements unsustainable" (9).

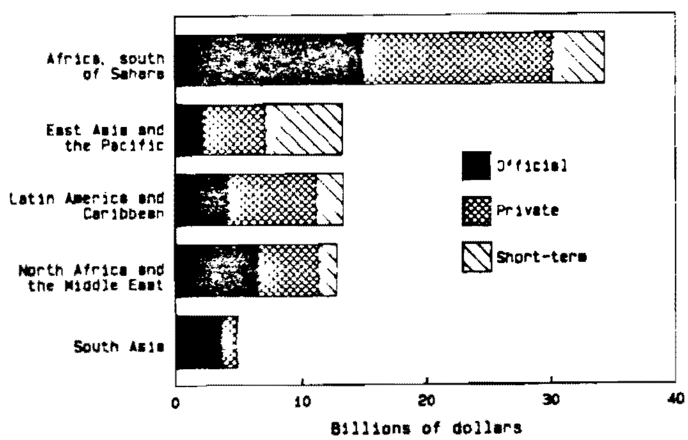
[18] It took the combined resolve of the Federal Reserve and Federal Deposit Insurance Corporation as well as a major consortium of bank loans to keep Continental Illinois operating. All of this was caused by an interbank loan loss of only $1 billion, a magnitude which is small compared with what is at risk with the debtor countries.

Figure 34

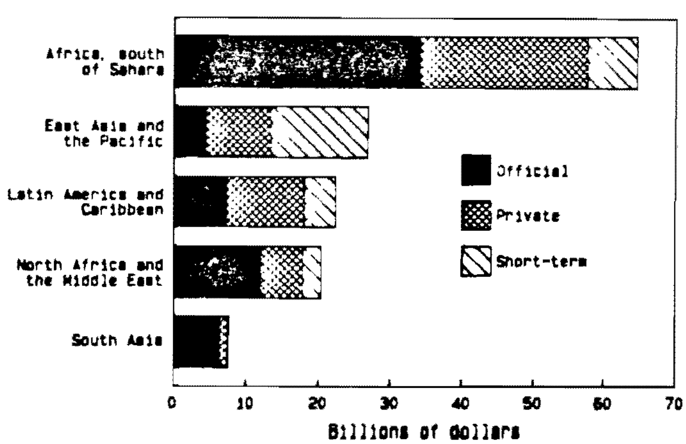
Regional Debt Distribution for
All Developing Countries, 1974



Regional Debt Distribution for
All Developing Countries, 1979



Regional Debt Distribution for
All Developing Countries, 1983



TRENDS IN DEBT ACCUMULATION, COMPOSITION, AND RATIOS

Total debt for the 93 countries reached about $700 billion in 1982 and about $750 billion in 1983 (fig. 33). This should be viewed as a lower bound to the debt of developing countries because there are several categories of debt not included in these figures.[19] For example, the authors estimated short-term debt from Bank for International Settlements (BIS) statistics on bank liabilities to individual countries (2). However, many financial institutions are not BIS members; hence, the total is underestimated. Nonfinancial institutional debt is not included and could be substantial. The authors also did not include International Monetary Fund (IMF) loans. However, the total figure appears to agree with other published estimates (2, 5, 7).[20]

The incidence of debt is not uniform throughout the categories or the countries. The middle-income oil importers account for a very large percentage of the total debt outstanding (53 percent).[21] They also have a relatively high incidence of private debt (46 percent). However, the most seriously affected by short-term and private debt are the countries in Latin America and East Asia (fig. 34). Each of these groupings has approximately 25 percent of its total debt in the short-term category.

[19] The total would be $200 billion higher if the short-term and commercial liabilities of Singapore, the Bahamas, and Liberia were included. These are large-scale offshore banking centers; the authors assumed that significant amounts of recorded private liabilities of these three countries are the equivalent of branch deposits of Western commercial banks and did not include them as debt.

[20] There is an effort underway to improve the quality of debt statistics. A new International Financial Institute has been set up by major international commercial banks for this purpose. In addition, the BIS and OECD have been working together to produce a more accurate series on private and short-term debt. Initial estimates are already available for mid-1983.

[21] Note that the categories are not exclusive and, therefore, do not necessarily add to the total.

Our major agricultural market countries, a group of 18 countries which purchased more than $200 million in commercial agricultural imports from the United States during at least 1 year over the period 1979-81, is the most seriously affected group of all, accounting for almost two-thirds of the total debt of the 93 countries. Those 18 countries also have more than 40 percent of their debt in the private and short-term categories. Private and short-term debts are usually on variable interest rate terms. Under situations with high variability in rates, as we have observed over the period 1973-83, large percentages of short-term debt create the preconditions for repayment problems.

The regional distribution of debt is also heavily concentrated (fig. 35). Latin American countries hold almost half of total debt. Mexico and Brazil are the two largest debtor nations while Argentina, Venezuela, and Chile are also major debtors. There are, however, other significant debtor countries in Asia (the Philippines, Korea, and Indonesia) and in Europe (Yugoslavia, Poland, and Romania), as well as in North Africa and the Middle East (Egypt, Israel, and Turkey). The debtor nations in southern Africa and South Asia are not as significant in volume terms, but their debt problems tend to be associated with low-income countries, many of whom are facing serious food crises.[22]

The increase in short-term debt is a relatively recent phenomenon. Rapid increases in short-term and private debt apparently only occurred in significant quantities after 1973, although no pre-1978 data on such liabilities exist on a country level. The increase in short-term debt in 1980 is particularly revealing as a preliminary indication of the problems to follow (fig. 36). One can interpret the rise in short-term debt as a national response to what was perceived as a period of unusually high nominal interest rates, the late seventies and early eighties. Interest rates remain high, and real interest rates are historically high although nominal interest rates have fallen significantly from their 1981 highs. The strategy of short-term borrowing for what became long-term use has not, in hindsight, turned out very well.

[22] For a discussion of these issues see (26).

Figure 35
Percent Distribution of Debt by Major Geographic Areas, 1982

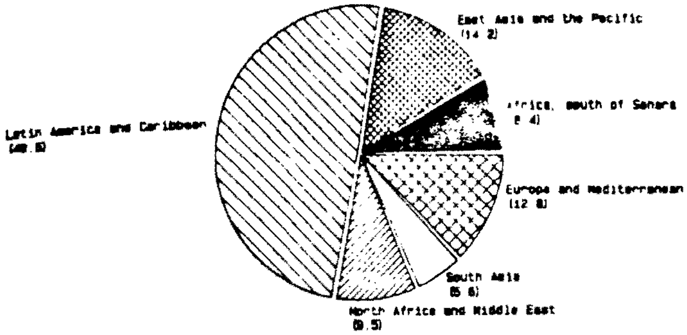
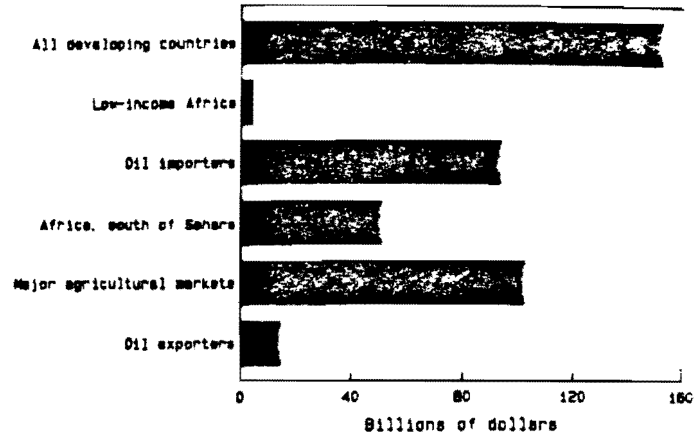


Figure 36
Net Adjustment by Country Categories, 1982



Note: Categories are not mutually exclusive.

Figure 38
Annual Growth Rate of Debt for All Developing Countries

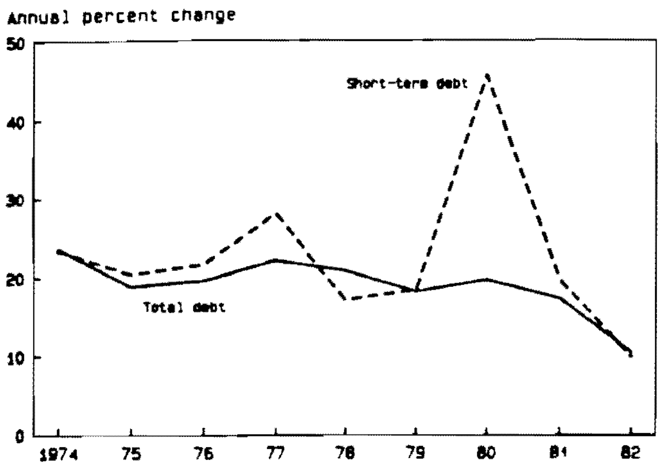


Figure 39
Debt Ratios, Country Categories, 1982

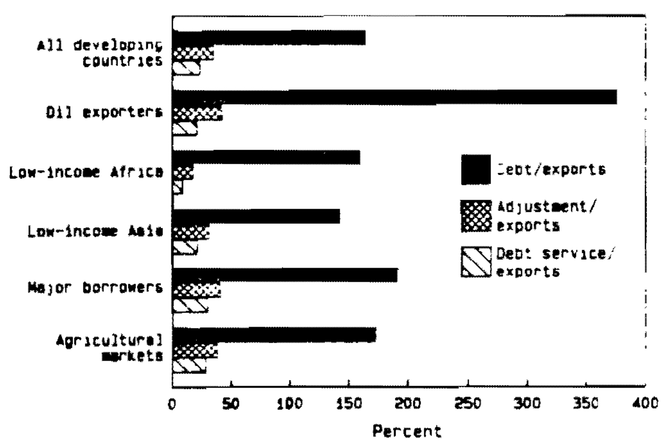


Figure 37
Annual Growth Rate of Debt

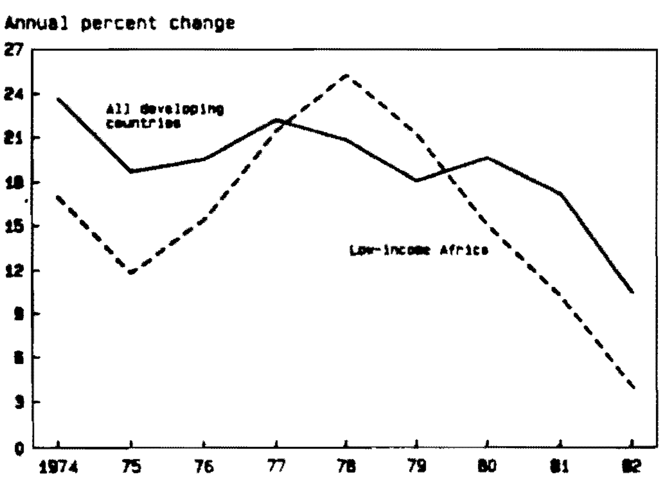
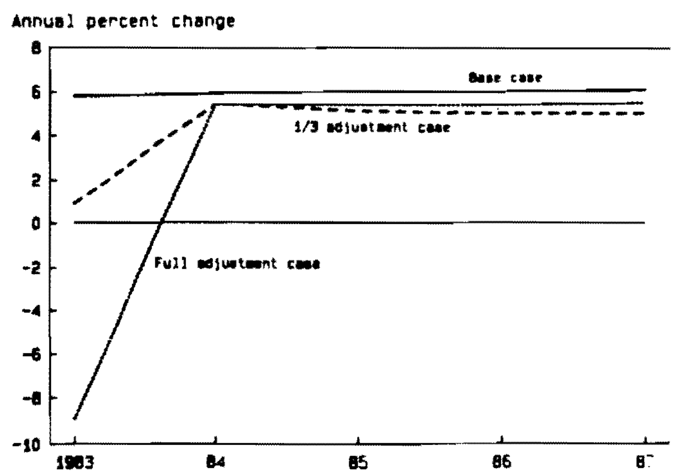


Figure 40
Projected Gross National Product Growth Rates, All Developing Countries



If the composition of debt indicates the serious imbalance between the period of investment return and payment commitments, the growth in debt over the period since 1973 indicates a trend which will be difficult and unlikely to continue. Between 1973 and 1982, there was almost a fivefold increase in nominal debt levels. Debt, on average, grew more than 20 percent per year, faster than either GNP or exports (fig. 37). The aggregate numbers hide the significance of what was really taking place. With the concentration of debt in selected categories, the growth in debt by individual countries greatly exceeded the average. The sharp rise and then fall in debt accumulation in low-income African countries foretold the current food crisis occurring in many of these countries now. The rapid growth in debt is a symptom indicative of fundamental disequilibrium in the international trading system over this period.

With only minor exceptions, the 93 countries included in the analysis were running deficits on current accounts. The net adjustment figure measures how far away each country or country grouping is from achieving payments equilibrium. In total, at the end of 1982, the 93 countries needed more than $150 billion in order to make the interest payments on their debt with the proceeds from their net exports (fig. 38). Our major agricultural trading partners alone represented 67 percent of that total.

The standard analysis of debt relates debt and debt service to GNP and exports. This analysis is similar in many ways to commercial bankers' ratios such as debt to assets, payments to income, and so on. In addition to the standard debt ratios, we included the ratio of net-adjustment to GNP and exports. A high net adjustment ratio implies very large costs to moving an economy back to payments equilibrium.

The debt ratios present quite a different picture than do the debt levels (fig. 39). Note that although low-income Africa has low debt levels in value terms, the debt-to-export ratios of this category far outweigh those of other groupings. In a relative sense, the problems of low-income Africa are as great or greater than those of the major debtors' categories.

This is not equally true for low-income Asia, which currently does not seem to have a serious debt problem, based on adjustment and debt service to export ratio. This group, which represents Indian subcontinent countries, has made significant progress in agricultural and general development programs. The relatively low debt ratios imply that debt will not be a constraint on their ability to continue with this success.

Table 2 presents alternative calculations of debt-service ratios. Columns (1) and (2) are

Table 2—Debt service ratios calculated as a percent of 1982 GNP and exports for country categories

Country categories	Debt service GNP (1)	Debt service XGS (2)	Debt service/GNP 10 YR (3)	Debt service/GNP 20 YR (4)	Debt service/GNP 30 YR (5)	Debt service/GNP 50 YR (6)	Debt service/XGS 10 YR (7)	Debt service/XGS 20 YR (8)	Debt service/XGS 30 YR (9)	Debt service/XGS 50 YR (10)
All developing countries	14.2	23.4	14.3	10.5	9.5	9.1	23.6	17.2	15.7	15.0
Low-income Africa	5.5	20.8	11.6	6.4	4.7	3.3	43.7	24.1	17.6	12.6
Low-income Asia	5.7	9.1	11.6	6.3	4.7	3.4	18.0	10.1	7.5	5.5
Middle-income oil importers	15.2	26.5	15.9	11.8	10.9	10.5	27.7	20.6	18.9	18.2
Middle-income oil exporters	14.8	21.2	13.0	9.6	8.8	8.4	18.6	13.7	12.5	12.0
Major borrowers	15.7	30.2	15.6	11.7	10.8	10.4	30.0	22.5	20.7	20.0
Debt-affected countries	14.2	33.1	17.0	12.6	11.5	11.1	39.6	29.3	26.8	25.8
Agricultural trading partners	16.4	28.3	17.0	12.6	12.6	11.1	29.3	21.7	19.9	19.1
Africa, South of Sahara	10.8	15.5	13.6	8.8	8.8	6.4	19.6	12.6	10.5	9.2
East Asia and the Pacific	14.5	12.5	16.8	12.3	12.3	10.8	14.5	10.7	9.7	9.3
Latin America and the Caribbean	15.0	39.7	13.9	9.1	9.1	6.8	36.8	24.0	20.2	17.9
North Africa and Middle East	15.6	22.6	17.7	13.4	13.4	12.0	25.6	19.4	18.0	17.4
South Asia	5.7	9.1	11.5	6.5	6.5	3.6	18.3	10.3	7.7	5.7
Europe and Mediterranean	15.7	20.6	15.3	10.6	10.6	8.7	20.1	14.0	12.3	11.5

Source by column: (1) and (2) are taken from table 5 (25).
(3)-(6) take total debt from table 2 column (1) (25) and calculate the mortgage payment equivalent based on 10- to 50-year terms and divide by 1982 GNP.
(7)-(10) Same as above except divide by exports of goods and services.

current debt service based on existing loan structure. Columns (3) through (10) represent conversion of the existing debt into mortgages of different maturities.

Countries undergoing economic development have a very long delay between investment and returns. In addition, development requires high outlays on investments for decades before repayment can be made. For example the United States was a debtor until World War I, well over a century after our development as a nation began. Note, however, that the current debt structure of the developing countries more closely approximates a 10-year mortgage than any other term. It therefore appears that there is a real discrepancy between the structure of development finance and the returns to development.[23]

WORLD DEBT IN THE FUTURE

We used a simple macrorecursive growth model based on current parameters for each of the 93 countries analyzed in the study to evaluate the current debt problems' implications for economic and trade growth of developing countries over the next 5 years. Using the model, we projected the basic variables for the next 5 years for each of three alternative scenarios. We did not attempt predictions. Rather, we assessed the logical consequences of the current situation for growth and trade by comparing the three scenarios which vary the degree to which financial constraints restrict the economic growth of the debtor countries. Taking the current situation of each of the 93 countries, we applied the same rules of constraint to all countries and let the country-specific parameters determine the outcomes.

The three scenarios are defined as follows:

1. <u>The base case</u>. This is defined as a situation in which there are no financial constraints. The countries grow according to their savings-constrained, historically determined growth path.[24] Debt grows as needed by an amount equal to net imports and accrued interest payments.

2. <u>The one-third adjustment case</u>. This is defined as a situation in which countries must adjust towards an equilibrium in their balance of payments. Equilibrium is defined as a condition where interest payments on the national debt are equal to net exports plus net financial transfers. The adjustment is defined as the difference between interest payments on the external debt and the sum of net exports and net financial transfers. The one-third adjustment case assumes that the adjustment undertaken each year is one-third of the total adjustment required to achieve equilibrium. We assumed that countries can obtain the required financing to achieve this adjustment.

3. <u>The full adjustment case</u>. This case imposes the condition that all countries must fully adjust every year to their equilibrium. No new international financing would be available under this full adjustment case. Internal savings less allowances for interest payments would determine growth and trade.

The base case generates an average annual growth rate of approximately 6 percent for all countries (fig. 40). However, the different initial country conditions generate very different growth patterns for individual countries and groups of countries. For the period 1982-87 as a whole, total GNP growth ranges from a low of 19.2 percent for low-income Africa to a high of 39.4 percent for debt-affected countries. For individual countries, the differences are even more pronounced. Singapore and Malaysia have GNP growth projections over the 5 years of more than 55 percent while the Sudan has a negative growth rate even in the base case (fig. 41).

---

[23] The appropriate relationship between the debt-repayment term and the development path pursued by a nation needs further analysis. Here we merely assume, based on cursory observation, that there appears to be a discrepancy between what seems to be a reasonable structure of debt and the likely returns to development in the developing countries in the next decade.

[24] See (1) for a more complete discussion of the effects of savings constraints on economic development. Debt grows as needed by an amount equal to net imports and accrued.

The outcomes are far more bleak in the one-third adjustment and full adjustment cases. For all countries, GNP growth falls from a 5.8-percent increase in 1982 to a 9-percent decline in 1983. Total GNP growth from 1983 to 1987 increases only 13.8 percent. At the same time, nondebt-affected countries such as Singapore still exhibit growth above 50 percent for the 5 years. Sudan, on the other hand, shows a negative growth of 15 percent in the full adjustment case.

In per capita terms the differences become even more distinct (fig. 42). While all country categories achieve some growth in the base case (marginally in low-income Africa), most groupings and countries have declining per capita incomes under the full adjustment case.

The differences between the import performance under the different scenarios is even more pronounced than that of income. There is a reduction of $275 billion in imports of developing countries between the base case and the full adjustment case, a 35-percent loss (fig. 43). The one-third adjustment case still represents a $130-billion reduction in imports of developing countries. Two-thirds of that loss is accounted for by the countries which are agricultural markets of the United States. The East Asian countries on the other hand do not seem to be as adversely affected by debt. The adjustment process imposed on the developing countries involves a realignment of the import-export trade balance that in turn affects U.S. export markets.

As these results show, the different scenarios have a significant effect on trade. However, the key to the feasibility of any of these options is whether it is reasonable to assume that the debt required to sustain them can be forthcoming.

The nonconstrained base case involves a debt buildup from the 1982 level of approximately $700 billion to a total of $2.9 trillion in 1987. This is more than a 400-percent increase in 5 years and would require growth rates in debt far in excess of the very rapid rates between 1973 and 1981. However, even the one-third adjustment case requires growth in debt of more than 300 percent in 5 years. Only in the full adjustment case is debt reduced by the end of the period, and then only marginally. Even in this case, some additional financing is required through 1985.

Given the current world environment and the fact that net transfers to the developing countries were estimated to be a negative $11 billion in 1983, an alternative which requires larger and larger debt accumulations on the part of the developing countries will not be reasonably possible (29). This point is brought out even more significantly in the projected debt ratios for the three cases (fig. 44). Only the full adjustment case reduces these ratios. In the base case, debt ratios both in terms of GNP and exports triple over the 5 years. In the one-third adjustment case, debt ratios more than double.

The analysis of this section illustrates vividly the difference between the debt-constrained case and the nonconstrained cases. Logical and consistent projections of the implications of the current situation show the seriousness of the current debt problem and the magnitude of its cost. Moreover, in the constrained cases, the magnitudes of the cost may well be underestimated. We assumed a constant, healthy growth rate in the world economy of 3.5 percent a year for the next 5 years. We did not consider the interdependent effects on world growth. The magnitude of the adjustments associated with the full adjustment case, which would affect a significant part of the world economy, would have a dampening effect on the economic performance of the rest of the world. Furthermore, we assumed healthy growth in the demand for the exports of the developing countries and that markets in the OECD countries will be available at the same time that the developing countries reduce their import demand.

THE EFFECTS OF WORLD DEBT ON U.S. AGRICULTURAL EXPORT PROSPECTS

By 1982, the financial constraints to the international payments system were severe enough to adversely affect trade in agricultural products, especially imports to developing countries (in dollars), more so than in the nonagricultural trade. Furthermore, U.S. exports of agricultural products declined more severely than total agricultural imports to developing countries, a significant loss in market share.

Agricultural imports declined as a proportion of total imports for all 93 developing countries

Figure 41
Change in Gross National Product, 1982-87

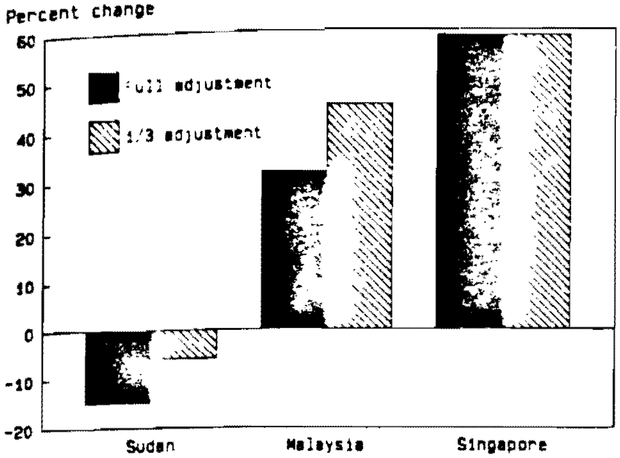


Figure 44
Debt-to-Export Ratio, All Developing Countries

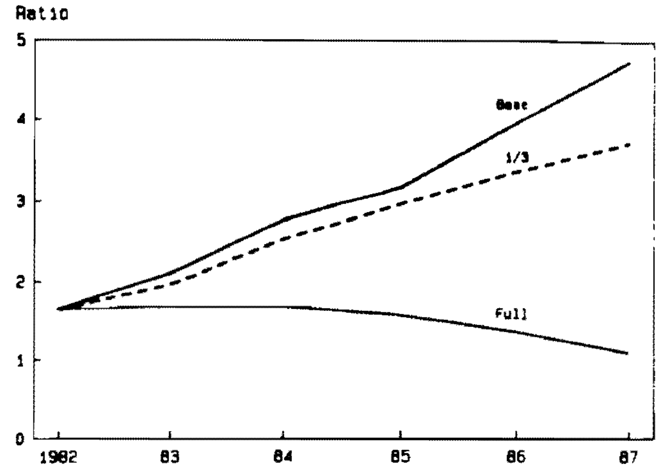


Figure 42
Per Capita Income Projections

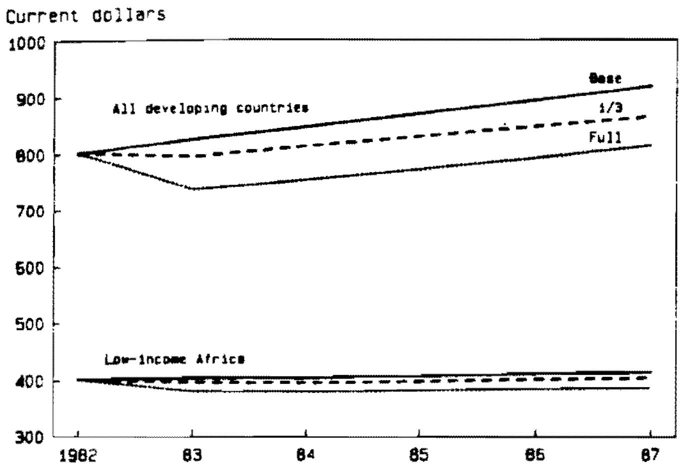


Figure 45
Ratio of Agricultural Imports to Total Imports

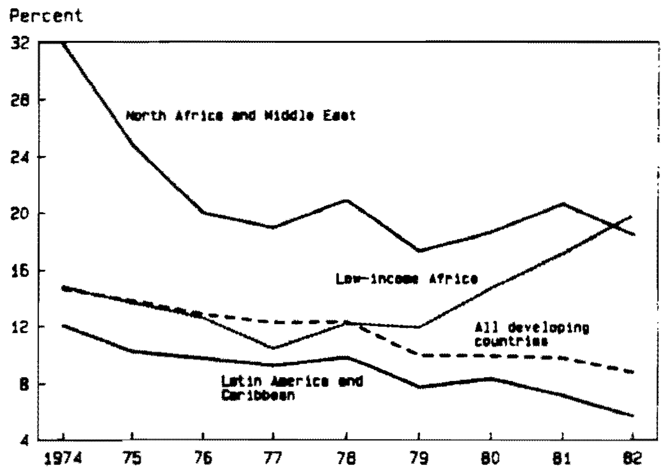


Figure 43
Projected Imports

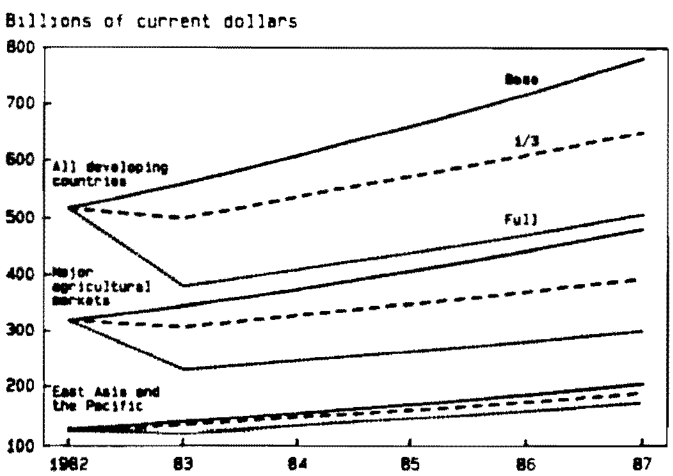
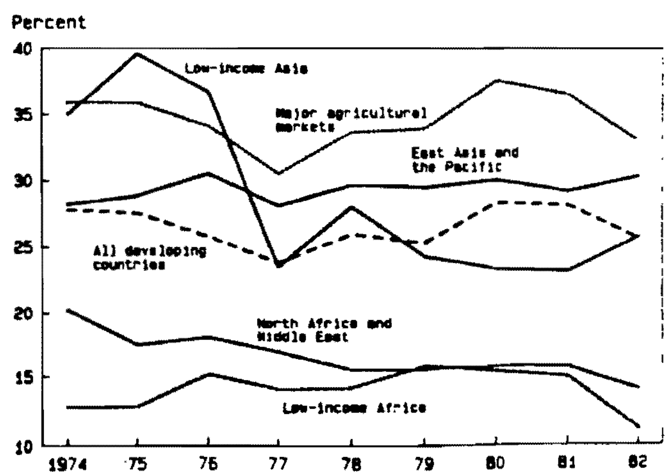


Figure 46
U.S. Agricultural Exports as a Ratio of All Agricultural Imports



from 1979 to 1981 (fig. 45). However, the financial constraints felt by the developing world exacerbated the shrinkage of agricultural trade in the total of world trade. For all developing countries, imports of farm products, measured in dollars, fell from 9.7 percent of all external purchases in 1981 to 8.7 percent in 1982.

The decline was particularly pronounced in our major agricultural market countries, falling from 9.7 percent to 8.4 percent over the same period. In Latin America, the deterioration took place over a 2-year period, with agricultural imports as a percentage of total imports falling from 7.7 percent on average over 1979-81 to 5.7 percent in 1982. North Africa and the Middle East saw a reversal of the upward trend in 1982, as farm products fell from nearly 21 percent to less than 19 percent of all imports. The dire food situation in low-income Africa, in stark contrast to the changes in other regions, is reflected in the sustained increase in purchases of foodstuffs from abroad, even in the face of deteriorating external conditions.

The market share of U.S. agricultural exports decreased from over 28 percent in 1980-81 to 25.5 percent in 1982 (fig. 46).

The performance of U.S. agricultural exports is exemplified by the decline in low-income Africa, where the United States lost market share despite that region's increase in overall agricultural purchases. The market loss is particularly severe in the major agricultural markets, and in North Africa and the Middle East. Interestingly enough, the U.S. share to the two Asian regions actually increased even with the exclusion of Taiwan.

The authors estimated the probable effect of the three scenarios (baseline, one-third adjustment, and full adjustment) on U.S. exports by assuming alternative U.S. market shares.

The following two cases were considered:

> Historic market share. We assumed that the market share of agricultural imports achieved by the United States for each of the 93 countries in 1979 to 1981 will prevail from 1983 through 1987. This is somewhat optimistic given the historically high rates achieved during this period, especially in 1980 and 1981. However, the decline in market share between 1981 and 1982 was probably caused by two factors which should change favorably over the coming 5 years: the relative value of the U.S. dollar and the high support prices for U.S. agricultural products. If the U.S. dollar should decline towards the 1979-81 relative value, a 35-percent decline in real terms from the highs achieved in January 1984, and if farm programs allow prices of U.S. products to more closely reflect world prices, the 1979-81 share will be achievable.
>
> 1982 market share. There was a significant drop in the market share of the U.S. component of agricultural imports between 1979-81 and 1982.

We also investigated the implications of projecting the 1982 market share through 1987; this is a pessimistic case. We considered this as a lower bound estimate. The real rate of increase in the value of the dollar in major agricultural markets slowed in 1983 and, although increasing again in 1984, should begin to decrease in 1985. Support prices are not likely to remain at the same high levels.

Agricultural imports as a percentage of total imports generally declined in the 93 countries during 1979-82. Agricultural imports from the United States also fell as a share of total agricultural imports. Thus, there is a significant difference in whether the U.S. position will continue at the 1982 market share or drop further or regain its previous market share.

Given these two alternative possibilities for U.S. export performance over the next 5 years, we generated six scenarios: two projections each for the baseline, the one-third adjustment, and the full adjustment cases. The total potential cost to the U.S. agricultural export sector may then be examined as aggregates, the projected rates of change, and the differences between the projections.

The difference in U.S. agricultural exports between the baseline estimate, the case with no financial constraints, and the full adjustment case reaches a level of almost $7.4 billion by 1987 (using the 1979-81 market share). However, even in 1983, the difference

U.S. Agricultural Exports and Export Projections, 1979-81 Market Share

Figure 47
All Developing Countries and Major Borrowers

Billions of current dollars

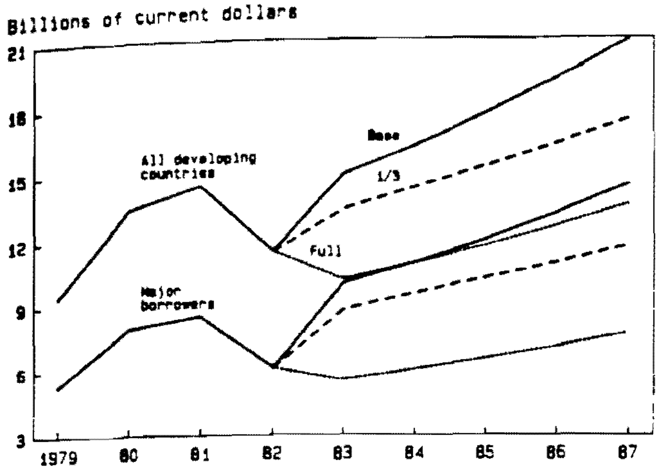


Figure 50
Debt-Affected Countries

Billions of current dollars

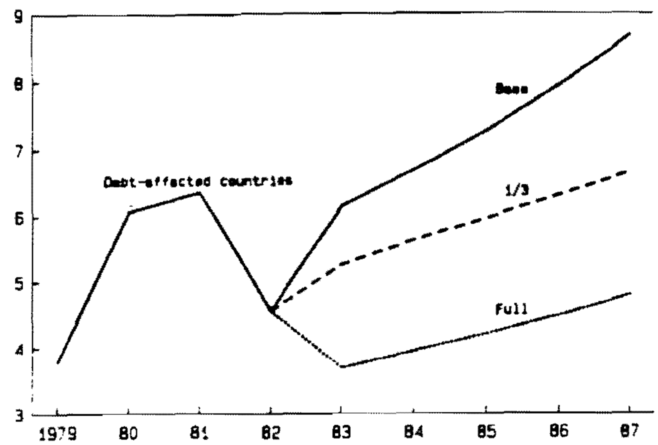


Figure 48
Major Agricultural Markets and Middle-Income Oil Importers

Billions of current dollars

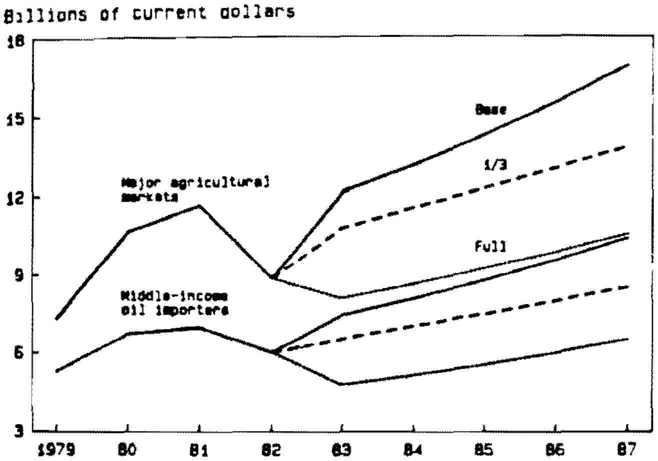


Figure 51
Latin America and Caribbean and Europe and Mediterranean

Billions of current dollars

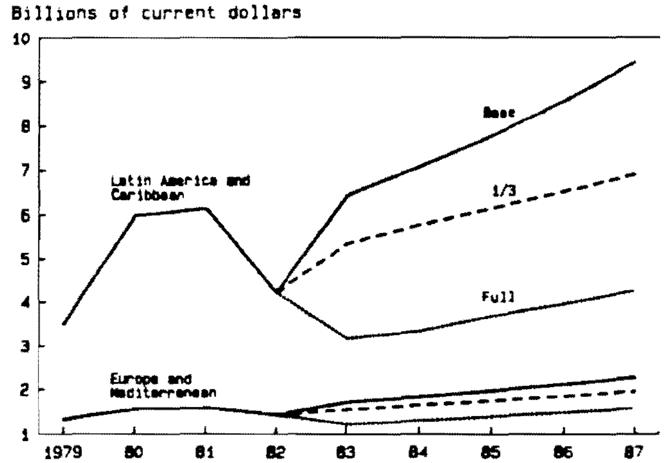
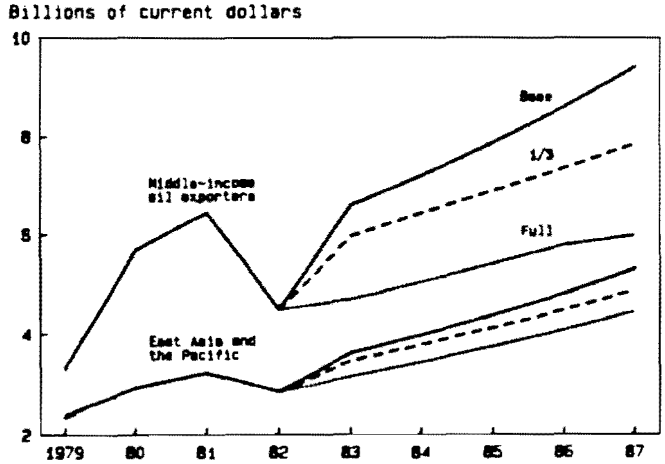


Figure 49
Middle-Income Oil Exporters and East Asia and the Pacific

Billions of current dollars



U.S. Agricultural Exports and Export Projections, 1982 Market Share

Figure 52
All Developing Countries and Major Borrowers

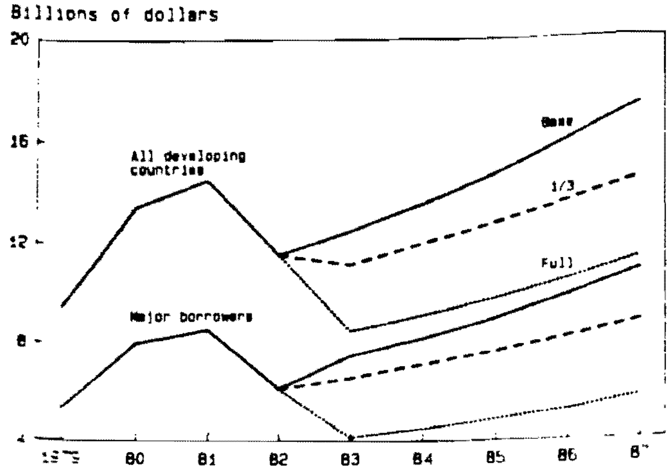


Figure 53
Major Agricultural Markets and East Asia and the Pacific

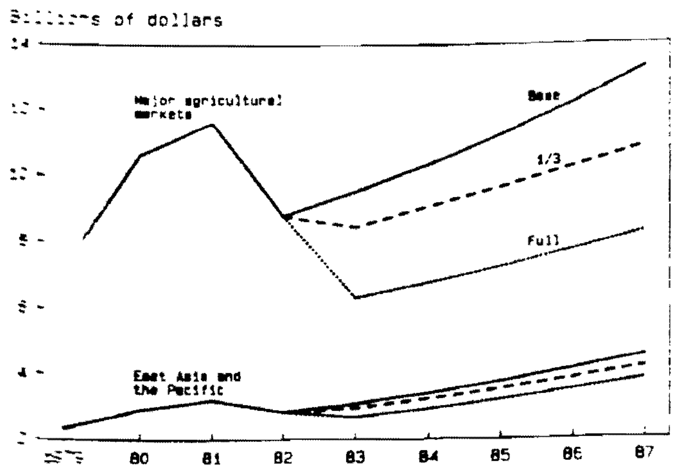
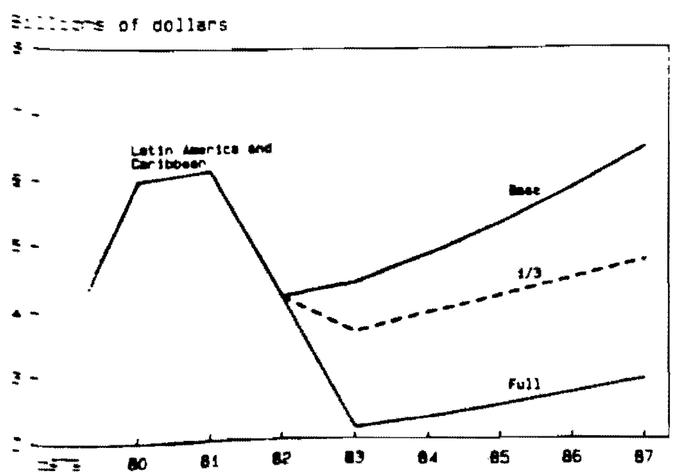


Figure 54
Latin America and Caribbean



is almost $5 billion. The difference between the baseline and the one-third adjustment case is much less initially, only $1.6 billion, but would become $3.5 billion by 1987.

Figures 47 through 51 show the projections, based on the 1979-81 market shares, for U.S. agricultural exports from 1983 to 1987, along with historical data from 1979-81. By 1987, the $7.4-billion difference between the baseline and the full adjustment case is dominated by three country categories whose members overlap: $6.7 billion is accounted for by the major borrowers, $6.3 billion by major markets for U.S. agricultural exports, and $5.2 billion by the countries in Latin America. Other significant losses in U.S. exports of farm products appear for the debt-affected countries, middle-income oil importers, middle-income oil exporters, and Europe and the Mediterranean. East Asia and the Pacific retained the largest portion of the baseline estimates, with 84 percent of the baseline remaining even under the full adjustment scenario.

The baseline case achieves the best overall performance in U.S. agricultural exports with average annual growth over the 1983-87 period of more than 8.5 percent. The one-third adjustment case shows average annual growth rates which are above 6.5 percent but which decline over the period. The full adjustment case has a rather sharp decline in the first year of the projection, the year with maximum adjustment. Then, annual growth rates increase to almost 7.75 percent by 1987. For the one-third adjustment case, export levels are higher, but with lower growth rates in the latter part of the period. In this case, adjustments keep occurring over the projection period. After the initial shock imposed by the full adjustment case, debt is less of a constraint to growth. Thus, trade grows more in line with the long-term historical rate.

The projections based on the 1982 market share are less optimistic (figs. 52-54). For this case, U.S. agricultural exports are approximately 15 percent less than in using the 1979-81 market shares. Exports do not even achieve their 1982 level within the 1983-87 projection period in the full adjustment scenario.

Using the 1982 market share, the difference between the baseline and the full adjustment scenario is $6.1 billion by 1987. The same major categories again dominate the potential loss: major borrowers account for $5 billion, major agricultural markets also $5 billion, and Latin America $3.5 billion.

The projections for both the 1979-81 and 1982 market shares reflect the declining portion of the baseline estimates achievable using either of the adjustment scenarios. Figures 55-56 shows the proportion of the baseline for the 1982 share for the one-third and full adjustment cases. For the 93 countries, the one-third adjustment implies a reduction from 89 to 83 percent of the baseline for the projection period. In full adjustment, the decline is less dramatic, from 68 to below 66 percent of the baseline projections. Adjustment to financial contraints implies a cumulative loss in export potential.

Figure 55
U.S. Agricultural Exports as a Percent of Baseline and 1/3 Adjustment Case

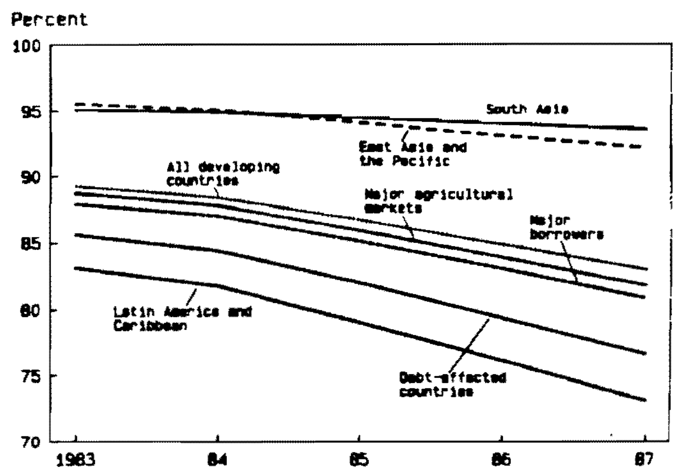
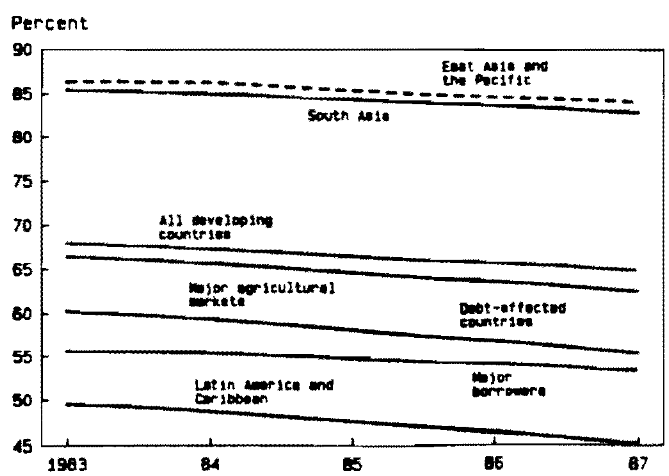


Figure 56
U.S. Agricultural Exports as a Percent of Baseline and Full Adjustment Case



Latin American countries illustrate the greatest difference between the baseline and the one-third and full adjustment cases. By 1987, the one-third adjustment value falls to 75 percent of the baseline. In the two Asian groups, not even the full adjustment case falls below 80 percent. The full adjustment case in Latin America is the most severe, with U.S. exports projected at less than 50 percent of baseline estimates. The only two other regional groupings for which the full adjustment cases drop below 60 percent of the base in 1987 are major borrowers and debt-affected countries. Furthermore, the latter category also has a one-third adjustment case of below 80 percent of the base in 1987. Somewhat more encouraging, major agricultural markets do not show much difference from the 93 developing countries as a whole.

The difference between the 1979-81 market share estimates and the 1982 market share estimates represents the effect of the change in U.S. exchange rates and loan levels over the period. A return to the 1979-81 average exchange rate and loan level would lead to approximately $2.5 billion more exports than the 1982 market share.

Figures 57-63 present the maximum difference between possible outcomes by comparing the 1979-81 market share baseline case against the 1982 market share full adjustment case. The export loss would increase from $6.5 billion to $9.6 billion over the period 1983-87 for all 93 developing countries.

Once again, the most severely affected region is Latin America (fig. 63) with a potential

U.S. Agricultural Exports, 1979-81 and 1982 Base

Figure 57
All Developing Countries

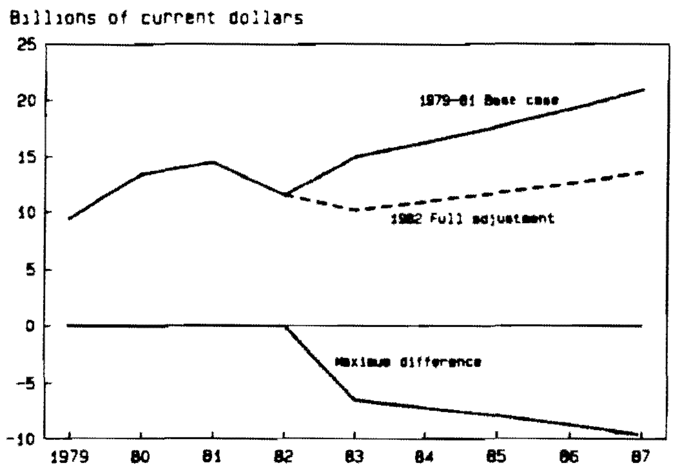


Figure 59
Major Borrowers

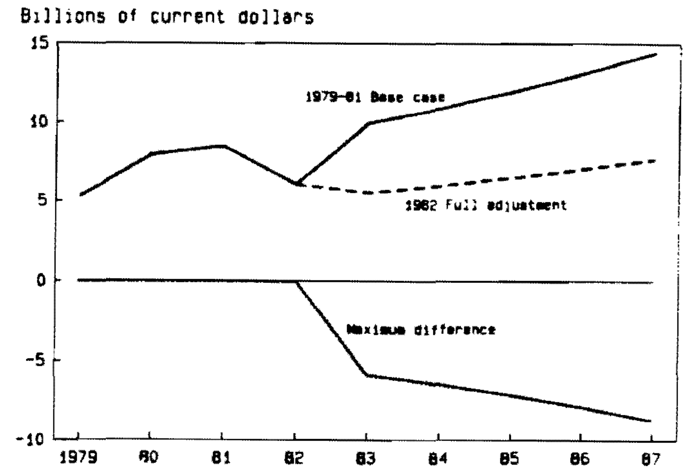


Figure 58
Middle-Income Oil Exporters

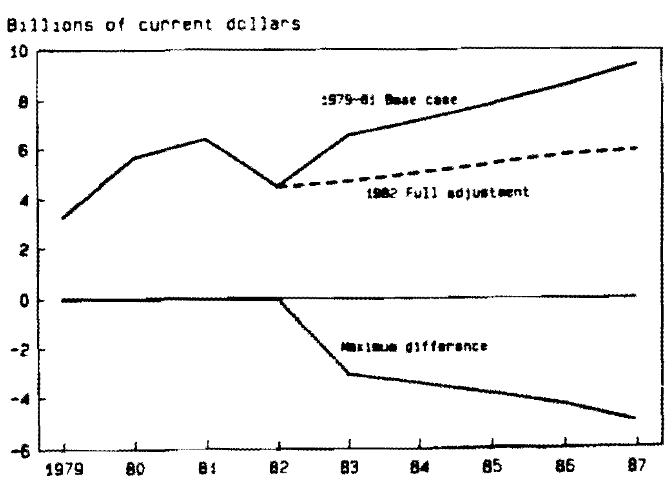
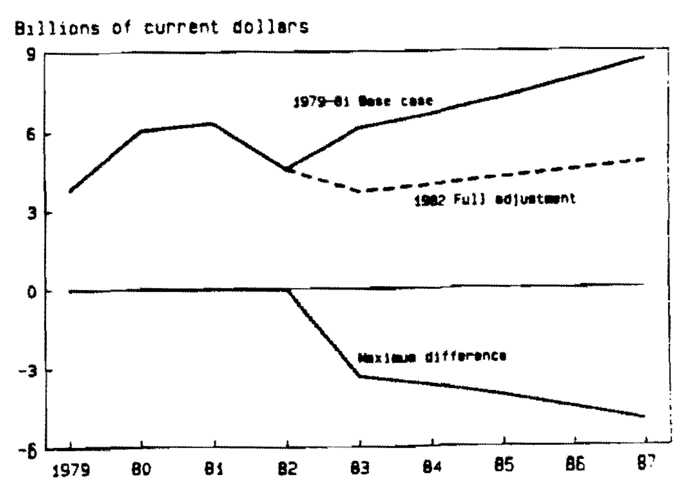


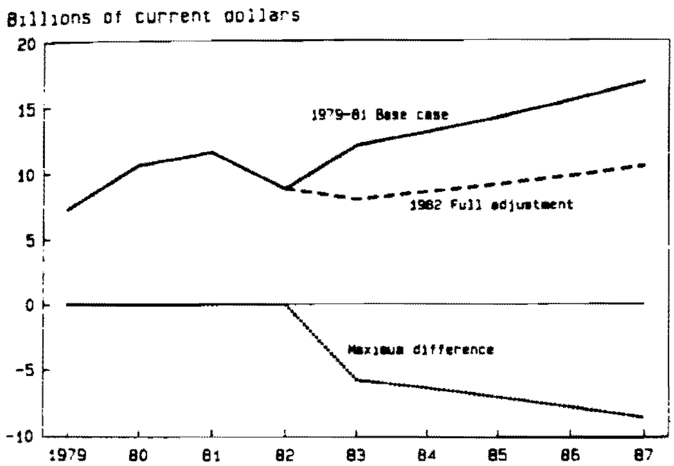
Figure 60
Debt-Affected Countries



market loss equivalent to two-thirds of baseline estimates. Other country groupings with a 50-percent potential loss in U.S. exports are middle-income oil exporters, major borrowers, debt-affected countries, and major agricultural markets. Finance does not seem to be a serious trade constraint for the East Asia and Pacific region.

Because the 93 developing countries make up approximately one-third of the U.S. export market for agricultural commodities, their import performance (our export potential) is highly significant for U.S. agricultural export performance. These countries have the potential to increase or decrease total U.S. agricultural exports by almost 20 percent. In addition, probable export losses are concentrated in countries most severely constrained by external finances. The degree to which such losses are realized depends heavily on the scope and types of response by the United States.

Figure 61
Major Agricultural Markets



THE U.S. RESPONSE: HOW TO MINIMIZE OUR COSTS

We need to know how the United States, through policies and programs, can reduce the adjustment costs of the debtor countries while at the same time increase our prospects for agricultural export growth.

We draw the following conclusions from our analysis:

Dampening of Growth and Trade

The current debt situation can severely reduce both trade and growth of the developing countries. Countries such as Brazil, Mexico, and Korea are paying a heavy price for their adjustment right now. Brazil has been undergoing adjustment since 1980; Brazilian per capita income decreased 15 percent between 1980 and 1982. Mexican per capita income has declined 25 percent since 1981. Korea, which recognized the problem early, spent 1981 and 1982 adjusting. Per capita incomes in Bolivia and Chile have declined by as much as 50 percent. Yugoslavian per capita income may have fallen by as much as 25 percent in 1983.

The Need for Adjustment

The current situation only partly reflects debt levels. The fundamental disequilibrium in the balance of payments systems of these countries is more significant. Large debt is as much a symptom as a problem. Debt

Figure 62
East Asia and the Pacific

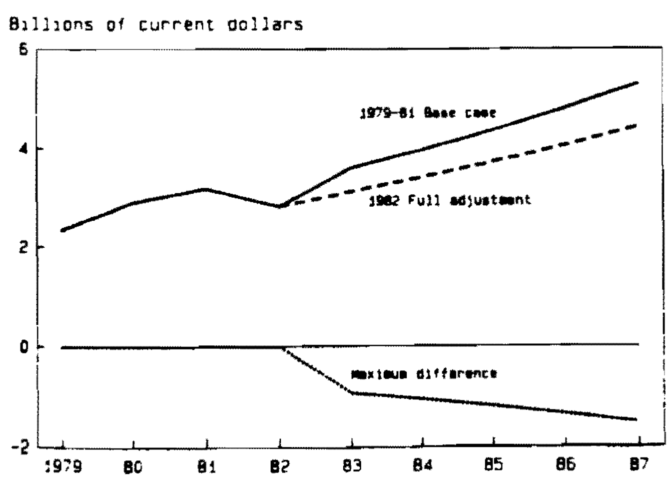
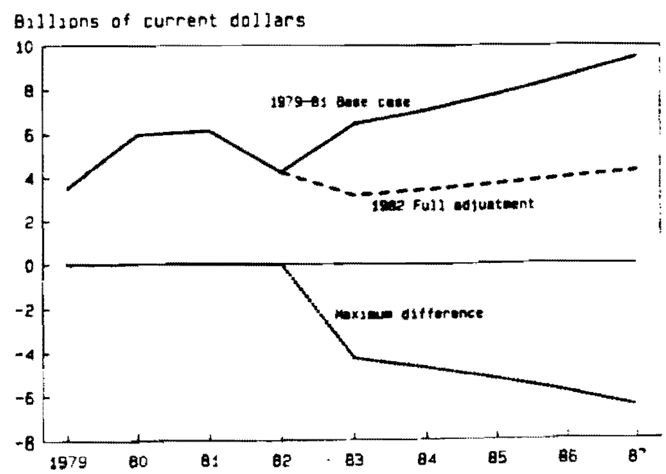


Figure 63
Latin America and Caribbean



accumulation is both a cause of and a result of balance of payments deficits. National economic policies have encouraged a situation where domestic prices and resources do not reflect scarcity values. Unless this situation is corrected, no realistic amount of additional financing will solve the problem.

Rather, additional financing under these circumstances would simply postpone dealing with what could be a far worse problem.

Financial Restructuring

Restructuring existing debt must accompany significant adjustment efforts by the debtor countries. It is necessary to reduce the debt burden during the period of adjustment when the debtor countries will be realigning their imports and exports. It is also necessary to provide a degree of payment certainty by restricting the impact of upward movements of interest rates on the payment terms of debtor countries.

Restructuring and Protectionism

Long-term success in solving the international debt problem can occur only if the adjustments and sacrifices of the debtor countries result in a realignment of the import-to-export ratios. This means there must be a market for the new exports. If protectionist measures are undertaken to prevent increases in exports of the developing countries from being realized, then there is the real potential for a breakdown in the international finances and trading systems.

Financing and Adjustment

Nonetheless, although providing additional financing will not necessarily solve the problem, it could help reduce the cost of adjustment. Financing can be used as a means for encouraging rapid adjustment and renewed growth. Although the initial cost of the full adjustment scenario is higher, the subsequent growth rate is also higher. In other words, additional financing can be used to put off adjustment, encouraging continued misallocation of investment and consumption, or it can be used as a means for undertaking the investments necessary for rapid adjustment for the benefit of all. Which of these occurs depends on how we structure our financing programs and how the debtor countries manage the funds.

Financing and U.S. Exports

In the current world environment, with large debt overhanging growth and trade, financing is a key to generating an export stream approximating that of the baseline case. If financing can generate exports at a rate of 30 to 50 percent of the amount—that is, \$10 million in aid generates \$3 to \$5 million in exports—then an initial \$6 to \$9 billion, rising to \$15 to \$20 billion, should generate the baseline export projection. However, more research is necessary to validate this initial estimate of the export-generating capacity of additional financing because we have assumed that there will be no change in the structural links between developing countries growth patterns and their trade patterns.

Financing and Repayment

Under the simulation, most of the countries can manage the adjustment without unacceptable income losses. A rapid adjustment will generate high levels of growth, implying an ability to repay the loans. Furthermore, considering that income multiplies the effect of export sales and the subsequent tax revenue generated by them, positive benefit-to-cost ratios should result from a significant export finance program. However, current programs with short-term payment requirements of only 3 years or less may not adequately reflect the required loan structure under current conditions.

The current world debt situation not only can significantly affect growth in developing countries but also can have an even greater effect on developing countries' trade. The future for U.S. agricultural trade is dim if action is not taken to counter the potential losses to trade, especially because of the heavy indebtedness of our major trading partners. However, financing can be used properly both to encourage adjustment to international trade imbalances and to help support our export trade, significantly improving intermediate-term prospects. However, the implications of the debt problem for the growth and trade of developing countries appear to be a significant if not major constraint to be dealt with over the coming years.

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LESSENING OF FOREIGN POLICY CONSTRAINTS TO ECONOMIC GROWTH THROUGH TRADE

POLICY STATEMENT

Foreign policy objectives of the federal government often run counter to progress towards expanding trade in agricultural commodities and products. Firm safeguards are needed to ensure that U.S. foreign policy serves, and does not detract from, the achievement of national economic benefits through trade.

Foreign policy embargoes applied to U.S. agricultural exports have undermined the United States' reputation as a reliable supplier of food and fiber. Foreign policy considerations have interfered with efforts to establish a more equitable international trading environment for U.S. agricultural commodities and products.

RECOMMENDATIONS

The Commission recommends:

1. **The federal government guarantee, except in time of national emergency, an absolute freedom from embargoes on U.S. agricultural exports to any nation, and an assurance of sanctity of contract in respect to export sales suspended under extraordinary circumstances.**
2. **Consideration be given to proposals designed to lift trade embargoes in respect to cash-basis sales of U.S. agricultural commodities and products, as have been recommended by certain representatives of the United States agricultural community.**
3. **Consideration be given to a normalization of nonstrategic bilateral agricultural trade relations with nonmarket economy countries.**
4. **Congress and the Administration resist pressure to subjugate legitimate trade interests of the United States to facilitate or enhance U.S. foreign policy interests, or those of other nations.**

Freedom From Embargoes

Current authority contained in the Export Administration Act of 1985 and permanent authority established in the 1977 and 1981 Farm Acts provide substantial protection against the use of agricultural export embargoes, but they do not preclude their application under certain circumstances. In addition, current law provides little protection against the use of agricultural embargoes against small country markets. Nor does it require the lifting of trade embargoes currently in effect.

Agricultural export embargoes have never been effective. It is not evident that such embargoes currently in effect are having the desired results, particularly since the commodities and products denied currently embargoed nations are freely available elsewhere.

Attention has been given within the agricultural community to the possibility of cash-basis sales of U.S. agricultural commodities and value-added products to nations with which the United States has unilaterally severed trade relations, if such nations are able to purchase such commodities or products elsewhere in the world market. The Commission does not currently recommend that affected nations be enabled to import their products into the United States market. However, U.S. agricultural exporters should be authorized to ship U.S. agricultural commodities and products to such nations if such commodities and products are freely available elsewhere, in a manner the President determines to be consistent with the maintenance of United States national security.

Normalization of U.S. Trade Relations with NonMarket Economy Countries

The United States should actively seek renegotiation and extension of the U.S.-Soviet long-term grain trade agreement. Con-

sideration should be given to a moratorium on Jackson-Vanik provisions of the 1974 Trade Act, subject to progress on the part of the Soviet Union in respect to emigration policies. Consideration should be given to nondiscriminatory tariff treatment of products imported by the United States from countries not currently subject to most favored nation status with which the United States presently enjoys a positive trade balance. Such consideration is in keeping with the need to maximize all avenues of trade, in view of our current trade deficit problems. **The Commission urges the government of the Soviet Union and other governments currently affected by U.S.- imposed trade restrictions to take such actions as have been suggested by the United States government to improve general relations and, thereby, provide the basis for future expanded, non-strategic bilateral trade with the United States.**

COMMENTARY

Foreign policy objectives of the United States government should not interfere in efforts to maintain and expand U.S. markets, except as demanded during time of war. Long-term economic interests should not be traded off to achieve short-term political gains. **The trade policy process of the United States government should be better geared to the maximization of United States' economic interests and a major effort made to lessen the role of political and foreign policy interests in the establishment of trade policy.**

Foreign policy embargoes applied to U.S. agricultural exports are neither an appropriate nor effective tool of foreign policy. In addition, **foreign policy constraints to trade, such as existing embargoes and Jackson-Vanik provisions of the 1974 Trade Act, have evidently failed to achieve their stated objectives.** Diplomatic considerations should not be the overriding factor in the design and implementation of agricultural trade policy. To the extent that such considerations operate to the exclusion of agricultural trade interests, they undermine efforts to improve U.S. agricultural competitiveness and deny the nation the benefits that would accrue from aggressive assertion of United States trade rights. **Safeguards should be put into effect to ensure that foreign policy objectives bear a proper relationship to the trade needs of the nation.** Such objectives should not be allowed to achieve priority in overall agricultural trade policy designs, except as may be demanded to protect the vital national security of the Nation.

Recent Problems

American agriculture has been numbed in recent years by foreign policy actions of the United States government that appear to run counter to the objective of expanding U.S. economic growth through the medium of agricultural trade. Significant foreign policy decisions have been made which have resulted in substantial damage to our nation's agricul-tural sector. The Soviet grain embargo of 1980 and 1981, by estimates prepared for the National Corn Growers Association, resulted in immediate losses totaling $11.4 billion in national output, 310,000 in national employment, and $3.1 billion in national income. **The embargo has transformed the international environment in which U.S. agriculture must trade, placing into question our reliability as a supplier and isolating U.S. agriculture from the lion's share of benefits it would have enjoyed as a consequence of continued and expanded Soviet demand for imported food and feed stuffs.** In dislocating world trade, the embargo created new market opportunities for our major competitor nations, stimulating incentives for production overseas, and contributing the worldwide glut of food and feed products. The long-term cost of this policy will never be adequately measured. Estimating the losses associated with these developments involves separating them from a host of other factors which have determined the nature of overall U.S. performance in worldwide agriculture markets. Nevertheless, it is clear that the cost has been high. The Corn Grower study determined that losses between 1982 and 1985 alone totalled $33 billion in output, 886,000 in employment and $9 billion in personal income. Such losses were borne, of course, during the most serious recession experienced by American agriculture since the Great Depression of the 1930s.

While the Soviet grain embargo of 1980 and 1981 represents the most vivid example of the

damaging effect of a foreign policy on U.S. agriculture, it alone has not been the source of friction with the government's foreign policy establishment. **The agricultural community views with great dismay the Department of State's apparent reluctance to support extending the application of the currently authorized BICEP programs to third-country markets and to categories of commodities other than those directly affected by unfair trade practices of the European Community (EC).** The Commission concurs in this view. If the BICEP program is to be effective as a means to promote greater competitiveness in world markets – as is evidently the intent of Congress in the 1985 Farm Act – it should be made available for use across the board, and without undue consideration for the economic interests of our non-EC trading competitors.

The President's recent decision to establish until September 30, 1986, the eligibility of the Soviet Union to import wheat under the BICEP program, has been well received. Segments of the agricultural community would have welcomed a statement of wider eligibility, to include additional commodities and other countries. Nevertheless, it is acknowledged that the decision was taken despite tremendous opposition from the Secretaries of State and Defense. In addition, it is understood that the State Department continues to strongly oppose the extension of the BICEP to the Soviet Union, beyond September 30, to other currently noneligible countries, and to a wide array of commo- dities. The Commission's position in regard to this view is clear. In this instance, the foreign policy establishment may be placing the interests of Canada, Australia, Argentina, and Brazil, to name just a few, above the interests of United States producers and exporters.

Indeed, the reluctance of our diplomatic representatives to forcefully promote agricultural interests, until recently, has been and will continue to be a major concern for American agriculture. Our diplomats overseas and at home pursue a wide agenda. Agriculture is but one aspect of this wider foreign policy. It is understandable that our foreign policy establishment should strive to find comity in our relations with allied nations, and prevent unnecessary conflict with other countries whose interests the United States desires to protect. Nevertheless, such policies should not be pursued to the exclusion of a proper emphasis on the need to expand agricultural exports. Furthermore, the agricultural community takes umbrage at the tendency within our diplomatic circles to find fault with U.S. agriculture first, as a prelude and preamble to seeking redress of grievance in the international trade arena. Even-handedness is, of course, a virtue, provided that the disputants in any conflict are equally even-handed. The Commission finds little evidence of even-handedness on the part of the EC, and while the Japanese government has taken great pains to publicly display its intent to achieve greater trade liberalization, results have, to date, been less than impressive. Our diplomatic representatives would do well to better steel their positions, in the face of a convincing and procrastinating opponent whose interests are clearly in competition with those of U.S. agriculture.

Similar concerns relate to the conduct of our foreign relations with Third World countries. The United States has a vested interest in promoting free market oriented economic development in lower income and newly industrialized nations. Such nations are American agriculture's future growth markets. It strongly supports our nation's assistance of the poorest countries and those currently suffering from the stress of international debt. It recognizes that assistance to debt-ridden nations must place proper emphasis on balanced payments service. Nevertheless, the agricultural community insists that foreign policy makers take greater account of the impact on agriculture of such policies, including those promulgated by the International Monetary Fund (IMF) and supported by the United States government, which emphasize the export of primary products in competition with those produced in the United States. Here again, the objectives of U.S. foreign policy should not be to the exclusion of American agricultural interests. Furthermore, **the Commission strongly condemns the practice, whether of the United States Agency for International Development (USAID) or U.S.-affiliated international lending institutions, of directly assisting the development of agricultural industries overseas whose products are**

intended to enter into world trade in competition with American farm goods. In the highly competitive environment agriculture faces in world markets – and considering the cost of maintaining price supports for American producers – there is little justification for taxpayers' cost in support of activities and industries overseas that frustrate the goal of expanding U.S. agricultural exports. U.S. agriculture stands ready to meet the task of fair competition in an open international marketplace. It sees little wisdom in government-financed support of its competitors.

Finally, **the Commission is of the opinion that current restrictions placed on bilateral trade with centrally planned economies fail to recognize the importance of such markets for U.S. agriculture,** and further, have not resulted in the outcomes such restrictions were designed to serve. The Jackson-Vanik provisions of the 1974 Trade Act serve as a clear example of this.

The Commission strongly supports the aspirations of the Soviet Jewish population. However, it has seen little evidence that the linkage between Soviet emigration and U.S.-Soviet trade has resulted in an improved Soviet policy toward Jewish emigrants. Indeed, it would appear that Soviet attitudes on the subject of Jewish emigration have hardened, rather than softened, since passage of the Jackson-Vanik amendment. Soviet Jews have seen little benefit from the legislation, while U.S. economic and agricultural interests have manifestly suffered. United States foreign policy should continue to assert our nation's interest in the preservation of basic human rights in the Soviet Union, and in other countries. Nevertheless, if such policy fails to achieve its basic purpose, and is, at the same time, detrimental to United States economic interests, it should be subject to reconsideration. Economic pressures rarely bring desired political results. The legacy of U.S. grain embargoes bears this out. New policies should be crafted to serve the laudable objective of promoting human rights overseas that do not involve exaction on the American agricultural community.

CONCLUSION

The health of U.S. agriculture is a fundamental factor in maintaining the national interest. Architects of United States' foreign policy often fail to recognize this fact. This failure of understanding runs through a wide course of our nation's foreign policy apparatus. It is evident when our diplomats hold back from aggressive tactics to counter unfair foreign competition. It is there when our development specialists place the interest of foreign countries above our own. It is a factor in every decision that places agricultural interests lower in priority than other interests served by foreign policy.

We have the assurance of government that the linkage of political and economic issues in these contexts serves all interests equally well. There is room for skepticism. The U.S. will be unable to aggressively pursue its economic interests so long as it insists that political objectives be served first.

Greater weight must be given to agriculture and agricultural trade interests in the formulation of foreign policy. Other countries practice foreign policy to advance their nations' economic agenda. The United States should do no less. Improvements in this area should be pursued along a broad array of fronts.

EFFECTS OF THE 1980 AND 1981 LIMITATIONS ON GRAIN EXPORTS TO THE USSR ON BUSINESS ACTIVITY, JOBS, GOVERNMENT COSTS, AND FARMERS

Prepared for
National Corn Growers Association

by
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SUMMARY

1. The President's action of January 4, 1980, suspending or stopping shipments of agricultural products to the Soviet Union, directly affected 13 million metric tons (mmt) of corn, 4 mmt of wheat and 1.3 mmt of soybeans and meal that was destined for the USSR in the 1979-80 shipping season. U.S. exports of those products in the 1980-81 season (July 1, 1980 to June 30, 1981) and subsequent years were also substantially reduced. While these effects at first were partly offset by increased exports to other countries, losses to industry, the government, and farmers were substantial.

2. The principal effects of the action outside the farm sector itself were on inland transportation, ocean shipping, labor use, the U.S. balance of payments, federal expenditures, and personal income.

3. Estimates of direct losses and costs in the affected sectors include these sectoral impacts:

   - Reduced value of inland transportation — \$120 to \$175 million,

   - Reduced value of ocean shipping — \$240 to \$365 million,

   - Balance of payments losses of up to \$2.5 billion arising directly from lost exports, and up to \$1.9 billion arising from lower unit values of all U.S. grain exports in 1980 and most of 1981.

   - Direct U.S. government costs of \$1.5 billion for acquisition of additional commodities, and \$1.0 billion for interest, storage, and handling arising from owning the commodities for a period of years.

   - Additional target price payments to wheat farmers of \$375 million.

The most important impacts, however, were those that take into account not simply the above sectors that were directly affected, but producer and consumer sectors on a national basis. There we estimate losses of \$11.4 billion in overall national output, 310,000 jobs, and \$3.1 billion in personal incomes earned in the U.S.

Impact of Lost Exports to the USSR in 1980 on the U.S. Economy

	Nationwide Losses In		
	Output - \$ mil -	Employment - No. workers -	Personal Income - \$ mil -
Corn	\$ 6,863	189,630	\$1,806
Wheat	3,014	79,508	856
Soybeans	1,568	40,635	445
Total	\$11,445	309,773	\$3,107

4. Indirect, intangible, and future effects of both the 1980 action and its unofficial resumption in 1982 have far reaching implications for the U.S.

   - The U.S. has become the residual instead of the principal supplier of agricultural products to the Soviet Union.

   - The U.S. may export only very small tonnages or perhaps no grain at all to the USSR in some future years under certain economic and political conditions.

   - It will be very difficult to negotiate a favorable U.S.-USSR grain agreement in view of export availabilities from other countries.

   - Encouraged both by an expanding world grain market in the 1970's and by U.S. "stop and go" export policies, other exporting countries have increased both their transport and loading capabilities and their grain production.

5. A general trade embargo banning the export of U.S. goods to the Soviet Union in 1982 would almost inevitably cut off or seriously reduce this trade for many years. Such an action would be inherently an action whose direct impacts would fall principally on the farm sector and allied industries, since most of our exports to the USSR are of farm origin.

   If such an action prevented the shipment of 24 mmt or 945 mil. bu. of corn over three years, plus 12 mmt or 441 mil. bu. of wheat and 3 mmt or 110 mil. bu. of soybeans, before it could be ended in (say) 1985, the overall economic costs would be as shown in the table below.

Impact of Lost Exports to USSR in 1982-85 on the U.S. Economy

	Nationwide Losses In		
	Output - $ mil -	Employment - Man Years -	Personal Income - $ mil -
Corn	$16,588	458,346	4,365
Wheat	11,474	302,731	3,260
Soybeans	4,814	124,740	1,368
Total	$32,876	885,817	$8,993

EFFECTS OF THE 1980 AND 1981 LIMITATIONS ON GRAIN EXPORTS TO THE USSR ON BUSINESS ACTIVITY, JOBS, GOVERNMENT COSTS AND FARMERS

This report provides: (1) a brief description of the suspension of sales and shipments of agricultural products to the Soviet Union by President Carter from January 1980 to April 1981; (2) a description of the economic sectors directly and indirectly affected by that action; (3) estimates of direct losses and costs in the U.S. associated with the President's action; (4) an analysis of indirect costs and other adverse effects; and (5) a projection of the adverse effects in 1982-85 if a similar action were taken this year.

Analysis of the 1980 action has focused mainly on costs to the government and losses to the farmer in the months immediately afterward. This report deals principally with effects on certain economic sectors and the overall U.S. economy, as well as with costs borne by farmers and government.

1. The Action: Suspension of Grain and Other Agricultural Product Exports to the Soviet Union.

The facts are simple enough. On January 4, 1980 President Carter ordered an indefinite suspension of shipments of agricultural products and some other goods to the USSR. The principal direct effect was to prevent the shipment of 13 million metric tons (mmt) of U.S. corn, 4 mmt of U.S. wheat, and 1.3 mmt of U.S. soybeans and soybean meal that had been sold to the USSR for delivery before October 1, 1980. All but the soybeans were sold under terms of the fifth year of the U.S.-USSR grain agreement. (Poultry and a few other agricultural commodities affected by the action are not considered here).

Grain shipments to the USSR up to the 8 mmt that had been guaranteed by the U.S. under the Agreement entered into in 1975 were allowed to continue, both in the 1980-81 and the 1981-82 season. This accounts for the term "suspension" which was used in official government descriptions of the action, as distinguished from "embargo" which was commonly used outside the government. When the 8 mmt of grain that the U.S. had agreed to ship between October 1, 1979 and September 30, 1980 had been sent, the suspension became an embargo until October 1, 1981 when another 8 mmt was authorized to be sold and exported to the USSR under the Agreement. Shipments of soybeans, broilers and some other agricultural products not under a trade agreement were embargoed from January 4, 1980 through April 1981 when the action was ended by President Reagan.

While the purpose of this report is to describe and estimate the effects of the loss of grain shipments, principally corn, to the USSR in 1980, it also touches on soybeans. Soybeans are produced on the same farms as corn and in some cases wheat. They move through the same marketing system using the same transport and storage equipment. Therefore, conclusions drawn for grains apply directly to soybeans even though not all our estimates include soybeans.

The 1980 action affected the volume of US-USSR trade and overall commercial relations directly in all of 1980 and until April,1981. The indirect effects continue to the present and will continue for an indefinite period. Their effects need to be taken into account and are treated here.

In describing the action and its effects, it is necessary to recognize economic linkages that go well beyond U.S. borders. When 13 mmt of U.S. corn, 4 mmt of U.S. wheat, and 1.3 mmt of soybeans and products could not be shipped to the USSR between January and October 1980, the Soviets turned to Canada, Australia, and Argentina for grain. Argentina which did not join with the U.S. in limiting grain shipments to the USSR, shipped additional quantities and was then unable to deliver the usual quantities to its regular markets. U.S. sales to some of those markets increased somewhat as a result. However, as discussed below, other exporting countries also responded to the larger market in the USSR, resulting from from the U.S. embargo, by increasing total exports and later by increasing production.

While U.S. grain exports did not decline by the full amount of the direct 17 mmt decline in wheat and corn exports to the USSR in the 1979-80 season, this magnitude of decline is probably not a bad estimate of the loss in U.S. exports in the two years following the January 4, 1980 embargo. For example, during the (current) sixth year of the U.S.-USSR Grain Agreement beginning October 1, 1981 the U.S. has offered the Soviets 23 mmt of grain, but it appears that they will take only about 11 mmt from the U.S. The USSR purchased 16 mmt from other sources in 1979-80, 26.5 mmt in 1980-81, and will probably buy about 29 mmt from non-U.S. sources in 1981-82.

2. Moving U.S. Corn, Wheat and Soybeans Into Export Markets.

In this section, we will describe the industry sectors and government indicators that are most closely related to grain exports. Estimates of industry, government and general economic impacts are provided mainly in Section 3.

The amounts and percentages of U.S. corn, wheat and soybeans going into domestic and export markets for the two most recent years (1979-80 and 1980-81 marketing seasons) are shown below. Note that from 33 to 64 percent of production has been exported in recent years. Removing or substantially reducing such a large volume of exports to a major (sometime the largest) customer is a critical matter with far reaching effects.

U.S. Supply-Demand Balances for Corn, Wheat, and Soybeans, Average 1979-80 and 1980-81 Marketing Years

	Corn	Wheat	Soybeans*
	million metric tons		
Production	185.3	61.3	55.2
Domestic Uses	127.9	21.3	21.1
Exports	60.8	39.3	29.3
	million bushels		
Production	7,294	2,254	2,030
Domestic Uses	5,036	781	777
Exports	2,394	1,442	1,076
Percent of production exported	32.8	64.0	53.0

* Includes products on a soybean equivalent basis.

The principal economic sectors involved in moving agricultural exports on to their final destination are:

(A) Inland Transportation. Corn and soybeans move from production into export mainly from the Midwest, although some export corn originates in the Southeast and the Great Plains. Wheat moves to ports largely from the Southern and Northern Plains, the Midwest and Southeast, and the Northwest.

- Roughly 55 percent of the grain and soybeans bound for export in 1980-81 moved to port by rail at a cost of about $.28/bu. from average locations to ports.

- About 45 percent moved by barge at an average cost of $.20/bu., although a small amount moves by truck.

(B) Ocean Shipping. Less than 5 percent of U.S. grain and soybean exports are shipped on U.S. flag vessels. Therefore, the estimate of lost ocean shipping receipts resulting from the 1980 trade suspension is for the world shipping industry rather than for the U.S. Average ocean freight rates in 1980 were about $20/ton for bulk grain shipments from U.S. Gulf ports to the USSR.

(C) Fertilizer, Farm Machinery, Farm Supplies. Effects of reduced exports on these sectors would be caused by:

- Accumulation of large carryovers, leading to government programs to reduce acreage planted or intensification of such programs already in effect to reduce plantings by more than had been intended before exports declined.

- Reduced market prices, leading to lower net farm income and diminished farmer purchasing power.

(D) Labor. Reduced labor use in the transport, port loading industries and agricultural supply industries would provide the principal loss in this area from lower exports.

(E) Balance of Payments. Total U.S. farm exports were valued at $40.5 billion in 1980 and $43.8 billion in 1981, on a fiscal year basis.

Agricultural exports adjusted for agricultural imports are credited with contributing a net improvement in the U.S. balance of payments of about $25 billion as an average for 1980 and 1981, despite the reduced volume and the reduced value per unit of agricultural exports.

The year 1980, however, may have marked a turning point in U.S. agricultural trade results. For example, U.S. exports to the USSR grew rapidly and fairly steadily during the 1970's, but fell sharply in 1980. Meanwhile, trade with Eastern Europe which was not affected by the embargo, continued to increase in 1980 and especially in 1981, when exports to the USSR also recovered to about the 1976 level.

Value of All U.S. Exports to USSR and Eastern Europe

Calendar Year	Total Exports to USSR	Agricultural Exports to USSR	Total Exports to E. Europe	Percent Agricultural Exports to USSR
	- - - - - - -	- - - - - - - millions	- - - - - - -	- - - - - - -
1971	$ 161	$ 45	$ 220	28
1975	1,833	1,170	1,279	64
1976	2,306	1,605	1,543	70
1977	1,621	1,053	1,121	65
1978	2,249	1,765	1,454	78
1979	3,604	3,000	2,115	83
1980	1,510	1,208	2,421	80
1981	2,431	1,665	4,338	68

Source: Department of Commerce

It is within the above framework of expanding trade with the USSR and Eastern Europe in the 1970's that losses in grain and other agricultural exports to those countries in 1980 and subsequent years, and arising from U.S. trade policy must be framed.

Another source of lost export earnings apart from the 18.3 mmt gross loss of shipments to the USSR or the net reduction in U.S. exports to the whole world, is the reduced value per unit of corn, wheat, or soybeans exported to other countries. In the next section we provide estimates of average price reductions per bushel or ton, resulting from the suspension or embargo action. These reductions affected the unit value of all agricultural exports subsequent to the embargo, not only in 1980, but as we shall show, in 1981 and 1982 as well.

(F) Federal Expenditures. Increased costs to the U.S. government can never be fully accounted for since many thousands of man-hours, and much travel and communication were involved, taking time from other necessary government functions. The major tangible sources of increased costs arising from the suspension were:

- Losses incurred in assuming most of the export contracts for grains, oilseeds, and other products that were cancelled by the suspension action. USDA estimates this direct cost at about $465 million in the 1980 and 1981 fiscal years.

- Costs incurred in acquiring, owning, and storing grain through increased loan and reserve entries, and direct purchases from farmers. As a result of the reduced prices and larger stocks associated with the embargo, the Commodity Credit Corporation of USDA (CCC) purchased about 150 mil. bu. of wheat and 155 mil. bu. of corn directly. We estimate also that about 200 mil. bu. additional wheat and corn went into the USDA grain reserve as a result of the embargo. Treating these outlays as costs is controversial since CCC will recover all or a large part of them. However, additional government outlays were made and must be counted.

- Costs incurred in storing and owning the above additional commodities acquired by the CCC in the present case, for an estimated 3-4 years in view of the overall grain situation. Virtually all the grain purchased is still owned in 1982, and there is little prospect that it can be disposed of until 1983 or 1984.

- Costs incurred in meeting target price payment obligations in 1980 or 1981 which were attributable to lower market prices, resulting from the embargo. No target price payments were made on the 1980 corn crop since a poor U.S. corn harvest kept all grain prices above target price guarantee levels. None were made in 1981, when U.S. policymakers unaccountably set the target and loan prices at the same level. However, target price payments of 15 cents per bushel on approximately 2.5 bil. bu. of wheat in 1981 must be attributed to the embargo in full or substantial part. Also, we estimate that average

prices received by farmers in 1980 for corn averaged at least 15-20 cents/bu. lower than would have been the case without the embargo. Our figures show that average farm prices for corn until August 1981 were about 30-40¢/bu. lower than if the U.S. had exported the larger quantities expected to be shipped in 1980. Without a suspension of trade with the USSR, we would not have had as large a carryover of corn at the beginning of the 1980-81 marketing year (1.6 mil. bu.), overall supplies would have been far tighter with the small crop, and prices would have been substantially higher to the present time or at least until the late summer of 1981. Wheat prices were reduced by an average of 25 cents per bushel over the two years.

3. Estimates of Direct Losses and Costs.

In Section 2 we described the linkages of farm produced grain to various economic sectors in and outside agriculture. In this section, we provide specific estimates of losses and/or costs incurred by the private sector and by government as a direct result of the 1980 suspension (later embargo) of certain exports to the USSR.

(A) Reduced Value of Inland Transportation. Losses to providers of rail, barge, and other transport for grains and oilseeds are estimated, based on composite freight rates provided in Section Two, and on two levels of reduced exports:

- 18.3 mmt of lost exports, the gross amount by which U.S. shipments to the USSR in the period January-October 1980 were reduced. Using this approach, the estimated loss in freight receipts mostly to rail and barge operators was $175 million; or

- 12 mmt, a rough estimate of the net amount by which U.S. exports of grain and soybeans to the world were reduced in 1980. This takes into account our increased exports to other countries that were the direct result of a rerouting of 3rd country exports to the USSR and increased U.S. exports to their usual markets. The estimated loss in freight receipts in this case, where the loss in USSR exports was partly offset, would be about $145 million.Judgments and claims on this matter will vary. Just after January 4, USDA and other offical spokesmen made representations that large amounts of grain no longer bound for the USSR would be bought by Mexico. It is possible that Mexico bought some of the grain, but it is most unlikely that Mexico bought more than she would have needed from the U.S.

(B) Ocean Shipping (world). Net losses in revenues in 1980 were either:

- $ 365 mil. based on the gross loss of export sales to the USSR; or

- $ 240 mil. based on the net loss of export sales to the world.

As indicated earlier, less than 5 percent of this loss can be allocated to directly to U.S. flag vessels, although much more might be attributed to U.S. ownership and/or manning of foreign flag vessels.

(C) Labor Lost in Transport and Shipping. We have not estimated this directly, but include it with an aggregate estimate later in this section of the overall impact on labor and goods. The total loss in jobs throughout the economy was in the area of 310,000.

(D) Balance of Payments. The loss in export earnings from reduced shipments to the USSR in 1980 was:

- Approximately $2.5 billion, based on actual export prices and the gross amount of reduced exports; or
- About $1.5 billion, if only 60 percent of the gross loss in exports is considered, in view of increased exports to other countries.

There is, however, another balance of payments cost that must be assessed --the reduced per unit value of U.S. grain export sales after January 4, 1980: (1) to all other countries in 1980; and (2) to all other countries in 1981. We estimate that the lower prices averaging 15-20 cents/bu. of corn and wheat in 1980 and 30-40 cents/bu. in the first nine months of 1981 affected roughly 3,600 million bushels of the two export grains in 1980 and 2,900 million bushels in 1981. Losses in exports from this secondary impact on the value of all exports were in the area of $540-$720 million in 1980 and $870-$1,160 million in 1981.

(E) Government Costs. In the previous section we identified about 505 million bushels of increased acquisitions of grain by CCC because of the trade suspension. The cost of these acquisitions is conservatively estimated at $1.5 billion.

Interest on $1.5 billion for the three years that these extra stocks are expected to be in CCC hands, at 12 percent amounts to $540 million. Storage and handling at 30 cents/bu./year comes to $454 million. Extra costs for wheat target price payments made in 1981 were as much as $375 million.

(F) The U.S. Economy. The lost exports to the USSR as a result of the January 4, 1980 embargo had a major impact on the total U.S. economy. Agricultural production and exports generate jobs and incomes far beyond farming itself -- in the agricultural input industries, in transportation and storage, in food processing, etc. For example, USDA estimates that every $1 million of production or exports of wheat, corn, or soybeans results in $5.2-$5.4 million in gross output of goods and services in the whole economy, including the farming sector.

The aggregate effects on the U.S. economy of the USSR grain embargo are summarized in the following table. In making these calculations we used the season average prices of corn, wheat and soybeans that actually prevailed in the

1979-80 marketing year, prices well below what they would have been without the embargo, as indicated previously. Using these prices tends to underestimate the losses involved, but the magnitude of the loss in income to the U.S. economy is so great that one can treat it conservatively without loss of effect.

On the other hand, we assume that the full 18.3 mmt of grain and soybeans affected by the embargo represents lost exports over two seasons. As discussed earlier, this probably overestimates the loss in actual exports in 1980, but is a reasonable representation or an underestimate of the two year loss in exports.

The effects of the 1980 embargo on the U.S. economy are estimated as follows, based on the Commerce Department's input-output model of the U.S. economy and the gross reduction in exports:

- A loss of $11.4 billion in output of goods and services — 0.5 percent of national output;

- Reduced employment equivalent to 310 thousand workers, or 0.3 percent of total employment; and

- A reduction in personal income of $3.1 billion, or 0.1 percent of total.

Note in the table below that the impacts are listed separately for corn, wheat, and soybeans.

Impact of Lost Exports to USSR in 1979-80 on U.S. Economy

	Season Average Farm Price	Lost Export Volume	Lost Export Revenue	Nationwide Losses In 1/		
				Output	Employment	Personal Income
	$/bu.	mil. bu.	mil. $	mil. $	No. workers	mil. $
Corn	2.52	512	1,500	6,863	189,630	1,806
Wheat	3.78	147	646	3,014	79,508	856
Soybeans	6.28	48	301	1,568	40,635	445
Total			2,447	11,445	309,773	3,107

1/ Based on Gerald Schluter and Kenneth C. Clayton, Expanding the Processed Product Phase of U.S. Agricultural Exports; NED, ERS, USDA, July 1981.

4. Indirect Costs and Other Damage to U.S. Agriculture and the Economy.

Prior to the January 4, 1980 suspension of grain sales and shipments and the accompanying political strains between the U.S. and USSR, American farmers had been and were expected to remain the principal suppliers of grain and soybean meal to the USSR. This is evidenced by the record of grain shipments from the 1971-72 through the 1978-79 season, as shown below. While our exports to the Soviets did not maintain the spectacular level of 1972-73, they did increase in the seasons indicated. This is especially true if we consider the low level shipped in 1971-72 of 2.9 mmt of U.S. grain. U.S. shipments were far greater than shipments by all other suppliers combined in most years after 1971, until the year of the embargo.

(A) The U.S. Has Now Become the Residual Supplier to the USSR. The commercial relationship in grains developed with the USSR during the 1970's represented a sharp change in the U.S. role in the world's grain trade, compared with our position vis a vis other importing nations. For a number of reasons arising out of the nature of grain marketing procedures and government policies in other countries and from some past U.S. farm policies, the U.S. has often been the residual supplier of wheat and coarse grains to the world. This is more true in the case of wheat than of corn, but it is true of both sectors. All other suppliers would sell whatever they had available in most years, and the U.S. would supply the remainder to a waiting world.

With the USSR the U.S. was the favored supplier and other countries got the residual trade -- until 1980. This situation developed both from the large quantities of grain Russia needed in some years; their experience in getting such quantities readily from the U.S.; and their lack of confidence in getting large quantities from other suppliers.

The predominance of U.S. shipments is seen in the fact that we supplied between 55 and 75 percent of USSR grain imports between 1972-73 and 1979-80, after having only a 37 percent share in 1971-72.

USSR Wheat and Coarse Grain Imports, By Source

(July-June Year)

	1971-72	1972-73	1973-74	1975-76	1977-78	1978-79
	------------- million metric tons -------------					
U.S.	2.9	13.7	7.9	13.9	12.5	11.2
Argentina	0.1	0.1	0.3	1.4	2.7	1.4
Canada	3.0	5.1	1.8	4.5	1.9	2.1
Australia	0.5	0.9	0.1	2.0	0.3	0.1
EC	0.1	1.9	0.5	0.5	0.2	0.2
Other	1.2	0.8	0.3	3.4	0.8	0.1
Total	7.8	22.5	10.9	25.7	18.4	15.1

That favored relationship no longer exists and is not likely to be re-established. The U.S. is now the residual supplier to the USSR.

The contrast of the previous record with the export record since the 1980 suspension action and expectations for the 1982-83 season is dramatic and discouraging. This is illustrated in the following table, showing that the USSR imported 26.5 mmt from non-U.S. sources in the 1980-81 season and will import 29 mmt of grain from those sources in the 1981-82 season. At a minimum, the Soviets can probably buy 26-30 mmt from the rest of the world year-after-year in the early 1980's (as shown in the Table for 1982-83).

USSR Grain Imports, By Source
(July-June year)

	1979-80	1980-81	1981-82	Projected 1982-83
	------ million metric tons ------			
U.S.	15.2	8.0	11.0	0-6
Argentina	5.1	11.2	12.0	11-12
Canada	3.4	6.9	8.5	8-9
Australia	4.0	2.9	2.5	2-3
EC	0.9	1.1	2.5	2-3
Others	1.8	3.9	3.0	2-3
Misc. Grains (All Sources)	0.6	0.5	0.5	.5
Total	31.0	34.5	40.0	25.5-36.5

(B) The U.S. May Lose All Exports to the USSR in Some Years. Optimists may say that the USSR has imported 31-40 mmt in each recent season and will inevitably need to come to the U.S. for large tonnages each year. In fact, recent years have been unusual years, in comparison with the 1970's. The 1979, 1980, and 1981 Soviet harvests fell short of their official targets which averaged 233 mmt by 25 percent, or some 59 mmt per year. A shortfall as large as 59 mmt per year was unusual, even for the USSR, where farm production is notoriously unstable.

Such seasons will happen again, possibly soon. However, there will also be fair to good seasons when USSR grain production is 200-215 mmt and fine seasons when production may exceed the 1978 record. When such seasons occur during the early 1980's, there is little reason to expect the U.S. to sell much or any grain to the USSR. As shown in the tabulation below, the Soviets could harvest as little as 190 mmt in 1982 or 1983, maintain feeding at or near their recent high levels or probably well above their 1981-82 level (if the 1981 harvest was well below 175 mmt), and import only the 26-30 mmt available from the rest of the world.

Current and Prospective USSR Grain Balance

		Total Production	Imports	Total Use	Feed	Stocks
		- - - - - - - - - - - -	million metric tons	- - - - - - - - - - - -		
1980-81		189	34.5	225	119	+ 2
1981-82						
	(a) USDA	175	42.0	216	120	0
	(b) Low	155	40.0	194	97	0
1982-83	(a) High	215	26.0	229	122	+10
or	(b) Medium	200	29.0	226	120	+ 5
1983-84	(c) Low	190	30.0	220	115	0

This possibility shows how misleading it is to argue that U.S. grains alone, or grains plus our limited exports of other products, can exert material and sustained political leverage on the USSR. Only when Russia's needs are extraordinary (greater than 26-30 mmt per year) and/or when supplies from other grain exporters are unusually low could the U.S. alone exercise great leverage by cutting off agricultural exports and that would probably be only temporary. This is not to say that a U.S. or a joint U.S.-allied trade embargo would not damage the USSR. Rather, it suggests that damage would be sporadic and limited most of the time.

With the support of all the other major grain exporters or in years following very poor USSR crops and high import requirements, the U.S. would have some political leverage on the USSR. However, it should be remembered that USSR meat consumption at half the U.S. level, is not so low as to generate serious problems if meat suppliers were reduced or could not be increased. The option of reducing meat consumption targets in the USSR, cutting off or reducing the need for large and constant grain exports, is also an option for the USSR. In fact, some argue that this is how and why a grain embargo should be used to force a reduction in diet quality, leading possibly to internal discontent and political disruption.

(C) A Doubtful Future for the U.S.-USSR Grain Agreement. The 1975 Agreement under which the USSR agreed to buy at least 6 mmt U.S. grain and the U.S. agreed to sell and deliver at least 8 mmt per year through September 1981 was in part a logical successor to the "stop and go" U.S. trade actions of 1973-74-75. The U.S. stopped or stalled exports of grains and/or oilseeds on three occasions in those years, once to the world and twice to the USSR or Eastern Europe.

The U.S.-USSR Agreement grew out of these actions since it both reassured the USSR that we would ship certain minimum amounts and reassured the U.S. that our farmers could count on a certain level of export sales. The U.S. initiated and pressed the 1975 talks that led to the Agreement, even though the popular wisdom was that "Russia needs us more than we need them." It was

a diplomatic event, negotiated largely by the Undersecretary of State, not an agricultural event. The U.S. has offered the USSR large quantities of grain above the 8 mmt level each year, at our initiative and without ever having a formal request from the USSR for more grain.

This result was partly a matter of form; the U.S. is more open than the USSR, and our grain supply levels are well known. Our officials would wait for the Soviets to ask, during a consultative meeting, for the grain we were sure they needed. Eventually we offered it unilaterally in most cases.

Even though the Soviets have now learned that they can buy 25-30 mmt of grain per year from non-U.S. sources, some advantages remain for them to buy as much U.S. grain as possible, however. We are more certain than any other country to have large exportable supplies in a bad year; we carry most of the world's reserves; and we can perform better than most other exporters on shipping schedules.

In 1982, however, there are very few reasons for the USSR to want a new agreement with the U.S. The USSR:

- Has agreements with most other grain suppliers.

- Can get all the grain and oilseeds it needs in many years without buying in the U.S. market, as shown above.

- Can buy in the U.S. market at any time (barring a general export embargo) without an agreement.

- Is unlikely to want a grain agreement with the U.S. as a political action. The U.S. will have to beg to get into a new negotiation, although one or more annual extensions of the existing agreement might not be so difficult to arrange at our initiative.

(D) Increased Export Capacity in Other Countries. Spurred partly by the strong demand for grains and oilseeds in the 1970's and by their own increasing grain output, Canada, Australia, and Argentina have increased their export loading capacity in recent years and are continuing to do so. This is illustrated by the total volume of grain shipped, as listed below. Note that Canada will export 7 mmt, or 41 percent more grain in the 1981-82 season than six years earlier. Australia will export 23 percent and Argentina 70 percent more than the 1975-76 season. These developments cannot be attributed solely or even principally to U.S. trade policies. But U.S. actions on agricultural exports have surely accentuated private and public actions and decisions leading to greater grain production and exports in other countries.

Wheat and Coarse Grain Production and Exports from Competing Exporting Countries			
	Canada	Australia	Argentina
	---------- million metric tons ----------		
1975-76			
Production	37.1	17.6	21.0
Exports	17.2	12.3	10.2
1980-81			
Production	41.0	16.0	28.9
Exports	21.6	12.8	13.7
1981-82 est.			
Production	50.2	23.0	25.3
Exports	24.3	15.1	17.4

Competing grain exporting countries have made major efforts to increase their production and export capacity, as follows:

Canada:

- Built a new export elevator on its west coast at Prince Rupert;
- Invested heavily in hopper rail cars; and
- Is attempting to modify its rail rate structure to improve its capacity to move grain by rail.

Argentina:

- Altered its grain policies to allow producers to receive world prices for grain and oilseeds in an attempt to spur production; and
- Encouraged private firms to invest in inland grain origination and export elevator facilities and in soybean processing, much of which has been completed and more is underway.

Australia:

- Improved their export capacibility; and
- Encouraged grain production through providing producers with higher advanced payments at the start of each crop year.

Even after adjusting for fluctuations in production and exports due to weather, competing exporting countries are already increasing their grain exports as the above table shows. These developments mean that the U.S. faces growing competition from other exporters, especially in years when the USSR is able to reduce its grain imports sharply from recent levels.

The U.S. role of a residual supplier may be further reinforced because the U.S. is the only major exporter that has explicit programs to support commodity prices and to reduce production through idling acreage in times of large supplies and weak demand. There is a real risk that U.S. price support levels will impair our price competitiveness in relation to other exporters.

The U.S. has also added substantial exporting capacity since 1975, much of which is idle in 1981 and 1982 because of the slowdown in exports, arising from limited shipments to the USSR, the general slowdown associated with economic recession abroad, and the strength of the dollar against world currencies.

5. Probable Costs of Maintaining the Present De Facto Embargo or of an Official Embargo on U.S. Exports to the USSR, 1982-85.

Since early January, 1982, the Reagan Adminstration has been considering a general embargo against exportation of any U.S. products to the USSR and possibly to Poland and other countries of E. Europe, to be applied under unspecified political conditions. These are generally thought to be: (a) more serious repressions in Poland than took place in late 1981 and January 1982; or (b) failure to lift martial law and to begin to restore certain rights to the Polish people at an early date.

The President and others in the government have repeatedly stated: (a) that such an action would be taken only if it could not be avoided; and (b) that agriculture will not be singled out in any trade sanctions against the Soviet Union. Both these conditions are ambiguous, since the President can avoid such an action if he chooses, and because agriculture eventually will bear most of the costs of such an action.

It is inherent in the composition of U.S. exports to the USSR that agriculture and especially grain is singled out by such an action. In recent years, our agricultural exports, mostly grains, have been about 80 percent of our total exports to the USSR in value terms.

As a result, a general trade embargo is essentially a grain embargo. A few large U.S. companies, but no major industries apart from agriculture, transport and farm suppliers would be seriously endangered by a general economic embargo. The ultimate effects, of course, would spread thorughout the economy as shown in Section 3.

Indirect, intangible, and future effects of both the 1980 action and its unofficial resumption in 1982 have far reaching implications for the U.S.

- The U.S. has become the residual instead of the principal supplier of agricultural products to the Soviet Union.

- The U.S. may export only very small tonnages or perhaps no grain at all to the USSR in some future years under certain economic and political conditions.

- It will be very difficult to negotiate a favorable U.S.-USSR grain agreement in view of export availabilities from other countries.

- Encouraged both by an expanding world grain market in the 1970's and by U.S. "stop and go" export policies, other exporting countries have increased both their transport and loading capabilities and their grain production.

A general trade embargo banning the export of U.S. goods to the Soviet Union in 1982 would almost inevitably cut off or seriously reduce this trade for many years. Such an action would be inherently an action whose direct impacts would fall principally on the farm sector and allied industries, since most of our exports to the USSR are of farm origin.

If such an action prevented the shipment of 24 mmt or 945 mil. bu. of corn over three years, plus 12 mmt or 441 mil. bu. of wheat and 3 mmt or 110 mil. bu. of soybeans before it could be ended in (say) 1985, the overall economic costs would be as shown in the table below.

Impact of Lost Exports to USSR in 1982-85 on the U.S. Economy

	Nationwide Losses In		
	Output - $ mil -	Employment - Man Years -	Personal Income - $ mil -
Corn	$16,588	458,346	4,365
Wheat	11,474	302,731	3,260
Soybeans	4,814	124,740	1,368
Total	$32,876	885,817	$8,993

USSR Grain Balance

Year Beginning July 1		Supply: Production	Supply: Imports	Supply: Exports	Total Supply	Disappearance: Total Use	Disappearance: Food, Seed Ind.	Disappearance: Waste	Disappearance: Feed	Stock Change
		(million metric tons)								
Total Grain										
1977-78		196	18.9	2.3	213	228	77	29	122	-16
1978-79		237	15.6	2.8	250	231	78	28	125	+19
1979-80		179	31.0	0.8	209	225	78	22	126	-16
1980-81		189	34.5	0.5	223	225	78	28	119	- 2
1981-82	(USDA)	175	42.0	1.0	216	216	79	18	120	0
	Low	155	40.0	1.0	194	194	79	18	97	0
1982-83	High	215	26.0	2.0	239	229	79	28	122	+10
	Med.	200	29.0	2.0	227	226	79	27	120	+ 1
	Low	190	30.0	2.0	218	218	79	25	114	0
Wheat										
1977-78		92	6.6	1.0	98	108	51	14	44	-10
1978-79		121	5.1	1.5	125	107	50	14	43	+18
1979-80		90	12.0	0.5	102	116	51	11	54	-14
1980-81		98	16.0	0.5	114	116	52	15	49	-2
1981-82	(USDA)	88	19.0	0.8	106	106	52	9	45	0
	(SA)	75	18.0	0.8	92	92	52	9	31	0
Coarse Grains										
1977-78		93	11.7	1.0	103	109	21	14	74	-5
1978-79		105	10.0	1.0	114	113	22	13	79	+1
1979-80		81	18.4	-	100	102	22	10	70	-2
1980-81		81	18.0	-	99	99	21	12	66	0
1981-82	(USDA)	77	22.0	-	99	99	22	8	69	0
	(SA)	70	21.0	-	91	96	22	8	61	0

APPENDIX C

IMPACT OF U.S. EXPORT RESTRICTIONS 1973 - 1981

INTRODUCTION

U.S. agricultural exports increased at a rapid pace throughout the 1970's and into the early 1980's. The volume of U.S. commodities shipped overseas more than doubled between FY 1970 and FY 1981, while the value of U.S. export shipments rose nearly 5 times from $7.0 billion in FY 1970 to $43.8 billion in FY 1981. The strong growth in U.S. export shipments was attributable to: rapidly rising populations and consumer incomes in many areas of the world, large flows of oil revenues into the Middle Eastern markets, low real interest rates and willing creditors which enabled many developing countries to borrow money relatively cheaply to finance their imports needs, the decision by the Soviet Union to compensate for short domestic supplies with purchases of commodities on the world market, crop shortfalls in major producing areas, and devaluations of the U.S. dollar which reduced the price of U.S. commodities to major buyers.

The sudden growth of agricultural exports and rising commodity prices spurred greater agricultural production in the United States. In the face of the increased output, agricultural exports assumed a new importance to the U.S. farm sector. In the early 1980's, nearly 30 percent of the cash receipts of the U.S. agricultural sector were generated by exports, compared with 23 percent in the 1970's and 15 percent in the 1960's. Export demand also provided a market for the equivalent of approximately 46 percent of U.S. soybean, 63 percent of wheat, 41 percent of cotton, 45 percent of rice, and 24 percent of corn production in marketing year 1981/82.

The export boom ended in 1982. Exports fell from a peak of $43.8 billion in FY 1981 to $34.8 billion in FY 1983, a decline of 21 percent. Stagnant world economic growth accompanied by high real interest rates, large foreign debt obligations of many important LDC markets, and increased production by other exporters contributed to lower U.S. shipments. U.S. export growth was also restrained by a strong value for the U.S. dollar and increased subsidization of exports by competitors.

During the 1970's and again in 1980, the U.S. Government took selective actions to limit exports of U.S. commodities. The reasons for the restrictions on exports ranged from short-supply and high price considerations to foreign policy concerns. An embargo on exports of oilseeds to all destinations was temporarily imposed in 1973, restrictions were placed on exports of wheat and corn to the Soviet Union in 1974, shipments of grains to the Soviet Union and Poland were suspended in 1975, and an embargo was placed on grains, oilseeds and products, and livestock product shipments to the Soviets in 1980.

The various export restrictions have generated considerable discussion in view of the critical importance of foreign markets to U.S. agriculture. Questions have been raised regarding the impact of these restraints on U.S. exports, farm prices and income, and the U.S. market position in the short and longer term.

1973 OILSEED EMBARGO

Nature of Restrictions

An embargo was placed on shipments of oilseeds from the United States to all destinations in the summer of 1973. Authority for the embargo stemmed from the Export Administration Act of 1969. Among the commodities affected by the export restrictions were soybeans and cottonseeds. Also limited were

shipments of oilseed products including soybean meal, cake, and oil and cottonseed meal, cake, and oil.

Environment

The 1973 embargo stemmed from developments in the world grains and oilseeds markets. A shortage of U.S. oilseed supplies began to emerge in late 1972 due to:

1. Reduced wheat, coarse grain, and sunflower crops in the Soviet Union. The desire of the Soviets to improve consumer diets contributed to a decision not to liquidate livestock herds in response to the short supplies, but to satisfy their commodity requirements with large imports from the United States. Purchases totaling 900 thousand metric tons of soybeans and 13.7 million metric tons of wheat and coarse grains exerted pressure on the U.S. oilseeds market.

2. A decline in world fishmeal production from 5.2 million metric tons in 1971 to 4.0 million metric tons in 1972. The smaller supplies were due largely to a sharp reduction in the Peruvian anchovy catch.

3. Strong foreign demand for oilseeds and other feed grains. At the beginning of 1973, hog numbers were up in Europe, Korea, Japan, and several other East Asian markets. Poultry meat production was also growing in Europe and Japan.

4. Uncertainties regarding the U.S. supply situation. Wet weather reduced soybean yields and slowed harvesting in many areas of the country during the 1972 harvest. Carryover stocks from 1971/72 were also low.

Policy Actions

Although U.S. soybean and world protein meal production expanded in 1972/73, the strong demand situation raised fears that U.S. soybean supplies would be depleted in early 1973. U.S. soybean prices in Rotterdam rose from $130 per ton to $198 per ton between September and December 1972. In response, the U.S. Government took a number of policy actions in early 1973 to relieve the situation. Restrictions were relaxed on wheat set-aside land to allow production of soybeans and feed grains. As wet weather hindered planting in the spring of 1973 and a devaluation of the dollar further fueled foreign demand, an additional 13.5 million acres of feed grain set-aside was

released for feed grain and soybean production. These efforts to increase supply were coupled with the suspension of sales of vegetable oils under the Government's CCC Export Credit Sales and Barter programs. Shipments of edible oils under the P.L. 480 program were also curtailed.

The policy measures did not entirely ease the situation and prices continued to climb. As a result, an embargo on exports of soybeans, cottonseeds, and their products was imposed on June 27, 1973. The embargo was replaced with a system of validated export licenses for soybeans, soybean meal, cottonseed, and cottonseed meal on July 2. The licensing system permitted exports on a contract-by-contract basis, after consideration of domestic needs. Export licenses were to be issued against each verified contract for 50 percent of the unfilled balance of soybean contracts and for 40 percent of the unfilled balance of soybean oil cake and meal contracts. The licensing restrictions were eased in August and export controls were removed October 1, 1973.

Impact of Embargo

The 1973 embargo and related export controls resulted in limiting exports of U.S. oilseeds and products. The volume of U.S. soybean and product exports were 13 percent higher in 1972/73 than shipments in 1971/72. Nevertheless, exports were lower during the July - September 1973 period than in the same months the previous year. Soybean exports in July - September 1973 totaled 32.7 million bushels, versus 66.2 million bushels the previous year. In contrast, soybean meal exports in July - September 1973 were 150,000 tons below year-earlier levels.

The lower volume of shipments was coupled with a decline in export values. For example, the U.S. Gulf Port price of soybeans fell from a peak of $10.69 per bushel in June 1973 to an average of $8.56 per bushel in July. The

total loss in soybean export revenue due to the lower price and export volume figures is estimated at $71 million, if it is assumed that the soybean export price would have stayed at its peak June level throughout the remainder of 1972/73 and the export volume for July - September 1973 would have matched the previous year's level.

The decline in U.S. exports affected the incomes of U.S. soybean farmers and exporters. The loss to U.S. farmers is estimated at $50 million, due largely to the reduction in the farm price of soybeans which fell from a peak of $10.00 per bushel in June to an average of $7.99 per bushel for the July - August 1973 period. In contrast, U.S. soybean exporters suffered reduced revenues from both lower export prices and volumes. The lower export values were offset to some degree by reduced farm prices. Nevertheless, exporters also incurred higher storage costs and other marketing expenses as a result of the embargo.

A number of additional conclusions may be drawn regarding the impact of the 1973 oilseed restrictions:

1. U.S. exports were lower than anticipated in the short-run. As indicated earlier, U.S. exports of soybeans and products increased in volume in 1972/73 and 1973/74. Exports declined in 1974/75, then recovered and continued growing throughout the remainder of the decade. However, the level of exports that could have been attained are not known.

2. The U.S. share of the world soybean and products market declined significantly in the years following the embargo. The U.S. market position fell from 68 percent in 1971/72 to 48 percent in 1982/83. This loss of U.S. market position was due largely to increased purchases by importers of soybeans and products from Brazil. Brazil's share of the world market for soybeans and products increased from approximately 7 percent in 1971 to 20 percent in 1979. While the expansion of Brazilian production, processing, and exports were attributable largely to policies that were implemented prior to the embargo; some continue impetus for this development may have stemmed from the U.S. embargo. The increased soybean prices stemming from short supplies in 1972/73 also provided an incentive for all exporters to expand output.

3. The 1973 embargo raised questions regarding the reliability of the U.S. as a supplier of commodities to the world market. Although other

factors played an important role in diversification of supply sources by importers and increased production by competitors, U.S. reliability concerns had an impact on the loss in U.S. market position subsequent to the embargo. For example, the Japanese invested heavily in the Brazilian soybean processing industry and increased their soybean meal purchases from Brazil in the years following the U.S. embargo. Nevertheless, Brazil also acted as a relatively unreliable supplier during the 1970's, intermittantly imposing taxes, licensing requirements, quotas, and sales suspensions on exports of soybeans and products.

1974 EXPORT SALES SUSPENSION

Nature of Restrictions

Actions taken in 1974 to limit U.S. export sales were not technically an embargo. The U.S. Government requested private U.S. grain firms to voluntarily restrain sales and the Soviet Union to limit U.S. purchases in response to short U.S. supplies. Commodities affected by the restraints included wheat and corn.

1974 Environment

The crop years 1972/73-1974/75 were a period of tight world grain supplies and relatively high prices. Crop shortfalls in the Soviet Union, Australia, and India in 1972/73 in the face of increased world consumption, reduced world stocks to low levels and exerted upward pressure on prices. The annual C.I.F. Rotterdam price for U.S. hard No. 2 wheat was 38.7 percent higher in 1972/73 than in 1971/72, and the annual average price for U.S. No. 3 yellow corn increased by 35.3 percent in Rotterdam. In 1972/73, world production improved somewhat, but strong demand kept carryover stocks low. Further supply problems surfaced in 1974/75 as poor weather reduced U.S. wheat and feed grain crops by 14 percent. Other major exporting and consuming areas also experienced unfavorable weather patterns, resulting in a 4 percent decline in world grain production.

The weak supply situation and prospects of significant Soviet purchases contributed to substantial price increases. In July 1974, the average F.O.B. Gulf Port price of No. 2 hard wheat was $169 per ton. This value increased to an average of $192 per ton in October.

Policy Measures

The U.S. Government attempted to ease the situation in the fall of 1974. On October 4, sales by two large exporting firms to the Soviet Union of 2.3 million tons of corn and 900 thousand tons of wheat were suspended until negotiations between the Soviets and the U.S. Government could be held. The U.S. Government also asked exporters to obtain USDA approval before closing any other large single-country contracts. The negotiations between the U.S. and the Soviet Union produced an agreement for the export of 1.2 million tons of wheat and 1.0 million tons of corn. Exports of further quantities to the Soviets were voluntarily limited until March 1975.

Impact of Embargo

The U.S. sales suspension relaxed the upward pressure on U.S. grain prices. The average price for hard wheat in Kansas City fell from $5.47 per bushel in October to $5.36 per bushel in November and remained below pre-suspension levels throughout the remainder of 1974/75. The price reductions resulted in a loss of income for U.S. wheat and corn farmers who marketed their crops subsequent to the sales suspensions. The price reductions, however, benefited U.S. livestock producers and consumers who were experiencing significant increases in feed and food prices.

The weakening of U.S. prices was accompanied by a decline in total U.S. grain exports. In 1974/75 (July-June), U.S. grain exports were 12.1 million metric tons lower than those of the previous year. A good share of this

reduction was attributed to lower Soviet purchases which fell 5.6 million metric tons below 1973/74 levels.

1975 EXPORT SUSPENSIONS

Nature of Restrictions

The export restrictions imposed in 1975 were similar to those in 1974. The U.S. Government requested voluntary restraints on sales to the Soviet Union and later, to Poland. Commodities affected by the restraints were wheat and coarse grains.

1975 Environment

The relatively tight world grain supplies from the 1974/75 season again carried over into 1975/76. By spring 1975, pressure on prices had eased somewhat due to larger than originally anticipated 1974/75 crops and reduced world trade. Nevertheless, ending stocks as a percentage of utilization reached a record low. Prospects were good for increased 1975/76 wheat and coarse grain production in several key regions including the U.S., Australia, and Canada. EC crops, however were down significantly and Soviet production in 1975 had fallen 51 million tons below year-earlier levels.

The Soviets began to compensate for their short crops with purchases of 9.8 million tons of U.S. corn and wheat in late July. The market, however, anticipated even greater Soviet imports and prices began to rise sharply.

U.S. consumers became concerned with the new price movements. After enjoying average food price increases of 2-3 percent in the 1960's, consumers had faced increases of 14 percent in 1973 and 1974. The potential for even higher food costs contributed to a decision by U.S. longshoreman to refuse to load ships with grain destined for the Soviet Union.

1975 Actions

The U.S. Government requested U.S. exporters to suspend sales of grain to the Soviet Union on August 11, 1975. When this action failed to stem the price speculation, a similar suspension was announced on September 9 for sales to Poland. In late September, a 5-year agreement was concluded with the Soviet Union which assured the Soviets of a minimum supply of U.S. grains each year, but limited the amounts that could be purchased without approval of the U.S. Government. The initial minimum purchase limit was set a 6 million metric tons and an additional 2 million metric tons could be acquired without consultations with U.S. officials.

The sales suspensions to the USSR and Poland were lifted with the signing of the grain agreement on October 20. Letters regarding grain purchases by Poland under the agreement were exchanged with Polish officials in November.

Impact of Suspension

The suspensions on sales to the Soviet Union and Poland resulted in reducing the speculative pressure on prices. In October, grain prices weakened and continued to decline as: 1) the market had already discounted the effects of the agreement; 2) the Soviet's current import needs were satisfied; and 3) supplies from competitors were available.

Even with the sales suspension, U.S. exports to the Soviet Union and other buyers increased. Soviet net wheat and coarse grain imports rose from less than 1.0 million tons in 1974/75 to 25.1 million tons in 1975/76 of which the U.S. supplied almost 14 million tons. The volume of total U.S. grain exports was up 28.9 percent in 1975/76 from 63.6 to 82.0 million tons.

The growth in U.S. grain exports in 1975/76 continued throughout the remainder of the 1970's. U.S. exports of wheat and coarse grains declined from 73.8 million tons in 1973/74 to 63.6 million tons in 1974/75. Exports then recovered somewhat to 81.7 million tons in 1975/76 and reached 92.7 million tons in 1978/79. This growth in U.S. exports more than kept pace with the expansion in world trade. Between 1973/74 and 1978/79, the U.S. market position in the world market expanded from 53.5 percent to 55.1 percent.

Soviet imports of grain from all sources in the remainder of the 1970's varied widely depending upon the availability of domestic supplies. In 1979/80, however, U.S. imports of grain by the Soviets surpassed 1972/73 levels. However, the U.S. market share in 1977/78 and 1978/79 also totaled 68 percent and 74 percent, not significantly different from the 1973 U.S. share of 73 percent. Estimates of what the U.S. share could have been without the sales suspension are difficult to make and perhaps the U.S. share would have been greater.

1980 SOVIET EMBARGO

Nature of Action

In contrast to the restrictions placed on exports in the 1970's, the 1980 embargo was imposed for foreign policy reasons. The embargo was intended to indicate U.S. disapproval of the Soviet invasion of Afghanistan in December 1979. On January 4, 1980, President Carter announced a suspension of sales to the Soviet Union and subsequently instructed appropriate officials to terminate sales under the Export Administration Act on January 7. Agricultural commodities affected by the embargo were exports of wheat, feed grains, soybeans, animal feeds, meat, poultry, dairy products, and some animal fats. Exempt from the restrictions were 8.0 million tons of wheat and corn covered by the U.S. - U.S.S.R Grain Agreement. The embargo remained in effect until April 24, 1981.

Soviet Situation

President Carter's stated purpose was to limit Soviet access to U.S. grain supplies, thereby causing large liquidations of livestock herds and meat shortages for Soviet consumers. Since the Soviets regard the improvement of consumer diets as a major sign of economic progress, the meat and dairy product shortages were expected to have economic and political ramifications. There was some disagreement as to the magnitude of the impact, but some U.S. officials anticipated that the Soviets would have to undergo significant adjustments to cope with reduced U.S. shipments. The success of the U.S. embargo depended upon soliciting the complete cooperation of other major suppliers to the Soviets. These efforts were less than successful, however, as the EC, Canada, Australia, and Argentina sharply increased shipments to the Soviet Union.

In the absence of the embargo, more optimistic forecasts indicated that the Soviets might buy as much as 37-38 million tons of grain, 2.4 million tons of soybeans and products, and large quantities of meat on the world market for delivery in 1979/80. Furthermore, it was agreed during the October 1979 Grain Agreement consultations that the Soviets could purchase up to 25 million tons of U.S. corn and wheat during the period October 1, 1979 through October 1, 1980. The success of the U.S. embargo depended upon soliciting the complete cooperation of other major suppliers to the Soviets.

Actions To Offset Embargo Impact

U.S. Government actions to restrict exports were accompanied by measures to protect the U.S. farm sector against economic losses stemming from the reduced sales. Among the actions taken were:

1. CCC purchases of embargoed commodities. The Commodity Credit Corporation purchased sales contracts entered into with the Soviet Union by private exporting firms before the date of the sales suspension. These contracts totaled about 14 million tons of corn,

wheat, and soybeans and products. The commodities were, in turn, resold to the highest bidder later in the year. In addition, USDA purchased 4.0 million tons of wheat and 4.2 million tons of corn from U.S. elevator operators and farmers. The commodities were placed in CCC stocks, with 4.0 million tons of wheat set aside for use as a food security wheat reserve.

2. Raised wheat loan rates from $2.35 per bushel to $2.50 per bushel, loan rates for corn from $2.00 to $2.10 per bushel, and loan rates for other feed grains by a comparable amount.

3. Provided additional incentives for farmers to participate in the farmer-owned reserve. These incentives included higher release and call prices for corn and wheat, wider bands between release and call level prices, a waiver of the first year's interest costs for additional quantities of corn moving into the reserve, and an increase in reserve storage payments for all grains. The incentives resulted in movement of an additional 7.2 million tons of corn and 1.4 million tons of wheat into the reserve.

Impact of Embargo

In general, most analysts agree that the export restrictions did not have as great an impact on the Soviet Union as had been originally anticipated. Exporter cooperation did not occur to the extent needed to enforce the embargo, thus the Soviets were able to replace suspended U.S. shipments with grain from other suppliers. In addition, the Soviets increased purchases of non-traditional imports such as wheat flour, rice, tapioca, and soybean meal. Despite their success in securing alternative supplies, the Soviets were often forced to pay a significant premium for and higher transportation costs on shipments from other exporters.

The embargo also had relatively little effect on the aggregate U.S. farm sector in the short-run as the policy measures implemented to offset the export restrictions were largely successful. Nevertheless, some farmers suffered a substantial loss of income due to the embargo. A number of farmers were forced to sell their crops to meet financial commitments during the period immediately following the embargo. Prices declined sharply during this period and the revenues and incomes of these farmers were significantly

reduced by the depressed prices. The income loss by farmers would have been greater and more widespread if U.S. Government efforts had not been made to support prices and remove commodities from the marketplace.

Over the longer term, the embargo appears to have had greater negative impact on U.S. agriculture. U.S. agricultural exports and the U.S. market position in grains and other commodities have weakened since 1981. This decline in U.S. exports and market position are attributable to various factors, some of which are more related to the embargo than others. This includes unfavorable world economic conditions, a strong dollar, increased subsidization of exports by competitors, and U.S. agricultural policies which have limited U.S. price competitiveness. Also, the 1980 embargo appears to have played a role in the deterioration of U.S. trade as U.S. access to an irregularly expanding Soviet market was reduced by the sales restrictions. Lower exports to the Soviets have forced the U.S. to sell more grain to other buyers, many of which have cut imports in recent years due to financial difficulties and poor economic growth. In addition, the embargo again raised questions regarding the reliability of the U.S. as a supplier. These concerns encouraged competitors to increase production for the Soviet market and strengthened the resolve of importers to diversify supply sources and domestic production.

Perhaps most importantly, the embargo contributed to increases in U.S. loan rates which occurred in 1980 and 1981. The higher support prices in the 1980's have limited U.S. price competitiveness and provided an additional, economic incentive for other exporters to increase production.

The impact of the embargo and its accompanying policy measures are examined in greater depth below. Analysis has indicated that the actions:

1. Denied the Soviets access to nearly 14 million tons of U.S. corn and wheat and more than 1 million tons of soybeans and products.

2. Resulted in smaller commodity imports than the Soviets anticipated. With the announcement of the sales suspension, the Soviets attempted to fill their import needs with shipments from alternative suppliers. The Soviets were ultimately successful in covering much of their import requirements, but purchases were 6-7 million tons of grain and 530,000 tons of soybeans and products less than if U.S. shipments had been completed. The smaller supplies forced the Soviets to reduce slaughterweights and draw down grain stocks. In addition, minimal increases in cattle and poultry inventories were realized and hog numbers were reduced. Supplies of meat and milk were limited despite Soviet promises to consumers to expand the availability of these items and per capita consumption was down.

3. Reduced U.S. exports. Although the total volume of U.S. commodities shipped overseas increased in 1979/80, it is estimated that an additional 1 million metric tons of wheat, 4-5 million tons of corn, 425,000 tons of soybeans, and 65,000 tons of poultry would have been exported in 1979/80 without the embargo. The lower exports reduced U.S. foreign exchange earnings by approximately $1 billion dollars.

4. Depressed commodity prices for several weeks, but had little impact beyond that point. Cash prices for wheat, corn and soybeans declined immediately following the sales suspension. The price of hard winter wheat in Kansas City fell from $4.40/bushel on January 3 to $4.01/bushel on January 10; #2 yellow corn in Chicago fell from $2.63/bushel to $2.30/bushel on January 11. Prices then stabilized and turned upward. The Kansas City cash price of wheat increased to $4.40/bushel on February 4 and the Chicago corn cash price strengthened to $2.68/bushel on February 5. Overall, it was estimated that the embargo and its accompanying policy measures had little to as much as a positive 5-10¢/bushel impact on wheat and a 0-5¢/bushel impact on corn prices in 1979/80 as the offsetting U.S. Government actions removed at least as much of the commodities from the marketplace as would have been exported. Weaknesses in these prices later in the year were attributed largely to the prospects of good 1980/81 crops.

5. Increased soybean stocks. The establishment of the wheat reserve, movement of more corn into the farmer reserve, and government wheat and corn purchases removed affected supplies of these commodities from the marketplace, relieving downward pressure on prices. No such measures were taken for soybeans, resulting in 425,000 additional tons of soybeans that had to be absorbed by the domestic market. Consequently, soybean carryover was increased and market prices were 5-10¢/bushel lower than if the embargo had not been imposed.

6. Had little impact on immediate farm income. The total effect of the policy actions on farmers' gross receipts in 1979/80 was estimated at a slight reduction to as much as a one-half billion dollar increase in revenues. The impact on farm income was estimated at a fractional decrease to a small increase.

7. Increased government program costs. The cost of the measures to offset the embargo impact were estimated at about \$2.2 billion. Nearly \$500 million of these expenditures were associated with the purchases and retendering of sales contracts from exporters. An additional \$1 billion was spent for direct purchases of grain and \$700 million of expenditures were incurred in moving additional commodities into the grain reserve. A good share of the latter \$1.7 billion in expenses had been or will be recouped upon resale of the commodities.

8. Reduced the U.S. share of the Soviet market. Prior to the embargo, the U.S. enjoyed a strong position in the Soviet market. In 1978/79, the U.S. supplied 57 percent of the wheat and 83 percent of the coarse grains imported by the Soviets. In calendar year 1979, the U.S. market position in the Soviet market for soybeans and products was a strong 99 percent. The U.S. market position had deteriorated to 20 percent in 1982/83 for wheat and coarse grains and to 14 percent for soybeans and products in 1983. Of particular significance is the inability of the U.S. to penetrate the growing Soviet soybean meal market due to lingering effects of the embargo. The U.S. share of this market, which expanded from about 50,000 tons in 1978/79 to 2.7 million tons in 1892/83, is zero. Soviet officials have stated repeatedly that because of the unreliability of the U.S., they will enter the U.S. meal market only as a last resort.

9. Encouraged other exporters to increase production and exports. Despite continued increases in U.S. exports between 1978/79 and 1982/83, the U.S. share of the world wheat market declined from 45 percent to 41 percent, coarse grains market fell from 65 percent to 59 percent, and soybeans and products market weakened from 63 percent to 58 percent.

POSITION OF REAGAN ADMINISTRATION

The experience with embargoes and other export restrictions in the past decade has led the Reagan Administration to conclude that such measures are largely ineffective and damaging to the U.S. farm sector. As a result, the Administration strongly opposes the use of embargoes and has stated:

1. No restrictions will be imposed on future exports of farm products because of rising domestic prices.

2. Farm exports will not be used as an instrument of foreign policy except in extreme situations and as part of a broader embargo.

3. World markets must be freed of trade barriers and unfair trade practices.

The Administration has also attempted to re-establish the "reliable supplier" image of the United States. Two priorities of the Administration upon assuming office were to remove the 1980 embargo and to sign a new sales agreement with the Soviet Union. The first task was accomplished in April 1981 and a new U.S. Soviet Agreement was negotiated in July 1983. The new agreement requires the Soviets to purchase annually a minimum of 9 million metric tons grain and an additional 3 million tons may be obtained without approval of the U.S. Government. The Soviets may also substitute 500,000 tons of soybeans and products for 1 million metric tons of corn and wheat in accordance with the terms of the new agreement.

Two pieces of legislation have been passed under this Administration in an attempt to limit the future use of embargoes. An embargo protection clause was added to the Food and Agriculture Act of 1981. The clause requires the Department of Agriculture to make payments to producers or to increase loan rates if exports are restricted for national security or foreign policy purposes and a similar ban is not placed on the export of all U.S. goods. In January 1983, an export sanctity clause was also added to the Agricultural Act of 1970. This provision prevents the invalidation of sales contracts which were entered into prior to an embargo announcement and requires delivery of the commodities covered by the sales agreement within 270 days of the embargo imposition date.

CONCLUSIONS

The United States has restricted exports of agricultural commodities several times in the past ten years. These restrictions have been imposed in an environment where exports are critical to the viability of the U.S. agricultural sector. The restrictions reduced U.S. farm prices, incomes, and shipments to foreign buyers in the short-run. Although some portion of the recent decline in U.S. agricultural exports and market position is likely to have occurred despite the actions, the restrictions on exports contributed to increased production by competitors over the longer-term. In addition, the "unreliable supplier" image of the United States which has emerged as a result of the export controls has encouraged buyers to attempt to increase self-sufficiency and diversify their sources of supply. A significant result of the 1980 embargo was the policy actions which were taken to offset the embargo. Higher commodity loan rates in the 1980's in reaction to the embargo as well as anticipated increases in inflation have hindered U.S. competitiveness and provided an economic incentive for competitors to increase output.

The Reagan Administration strongly opposes the use of embargoes and other export restrictions. These restrictions are viewed as ineffective and damaging to the U.S. farm sector. As a result, the Administration removed the 1980 embargo on sales to the Soviet Union soon after assuming office. Furthermore, steps were taken to re-establish the reliable supplier image of the United States including negotiation of a new grain agreement with the Soviets and additions of embargo protection and export sanctity clauses to agricultural legislation.

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APPROPRIATE ATTENTION TO THE MAINTENANCE OF POLICIES THAT SAFEGUARD U.S. AGRICULTURAL COMPETITIVENESS

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APPROPRIATE ATTENTION MUST BE GIVEN TO THE MAINTENANCE OF DOMESTIC POLICIES WHICH SAFEGUARD OR ENHANCE U.S. COMPETITIVENESS IN WORLD MARKETS

POLICY STATEMENT

Efforts to expand U.S. agricultural exports and maintain the competitiveness of U.S. agricultural commodities and products in domestic and international markets have suffered in recent years as a consequence of policies and practices of the federal government that directly and indirectly interfere with such efforts. Many such policies and practices result from an uneveness of fit between conflicting agendas of federal agencies, as has been addressed elsewhere in this report. In other instances, such policies and practices appear designed to inhibit competitiveness, and thus directly contradict the clear intent of Congress and the Executive in regard to the need for expansion of U.S. economic benefits through trade.

United States domestic agricultural price support and related programs should be designed with the following objectives in mind:

1. *Commitment to a long-term policy with sufficient flexibility to allow for adjustments to changing world economic conditions, but which provides for a reasonably stable and predictable atmosphere for planning purposes.*
2. *Commitment to policies and programs which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets.*
3. *Commitment to provide the opportunity of profitability to U.S. agricultural producers in order to maintain the competitiveness of U.S. farm and food system.*
4. *Commitment to preserve and protect our natural resources.*
5. *Commitment to continue strong support for agricultural research and education.*

Greater care must be taken to ensure that questions regarding the quality of U.S. agricultural exports are fully addressed by industry and government, with full assurance that such exports meet the tightest criteria possible consistent with the need to maintain quality in a competitive international trading environment.

Cargo preference laws relating to the shipment of government-directed sales of agricul-tural commodities and products should be subject to further review by Congress and the Administration. Such policy, if extended to include programs designed to enhance U.S. competitiveness, expands federal expense, with additional costs borne by the nation in terms of lost export sales. New solutions need to be found to address the problems of the U.S. maritime industry. The industry itself will not prosper if the net effect of such policies results in a decline in agricultural competitiveness.

RECOMMENDATIONS

The Commission recommends:

1. **Congress and the Administration maintain the direction of policy in regard to domestic agricultural policy contained in the 1985 Farm Act, to the extent that such policy serves the long-term goal of U.S. competitiveness in domestic and world markets.**
2. **Congress and the Administration reassert the importance of long-term domestic policy that is pro-export and pro-trade.**
3. **Industry resolve itself to lay to rest once and for all questions of quality involving U.S. exports of agricultural commodities and products, in advance of Congressional action.**
4. **Congress and the Administration reopen for review current cargo preference laws affecting U.S. agriculture, consistent with the objective to provide assistance to the U.S. maritime industry through means which do not involve exaction upon U.S. agriculture.**

United States Domestic Agricultural Policy

International price competitiveness is not inconsistent with the achievement of enhanced profitability and farm income in the domestic agricultural economy. Indeed, the

Commission believes that a complementarity exists between domestic and export programs that can serve the goal of agricultural competitiveness and profitability. There is a direct relationship between domestic farm programs and U.S. agricultural competitiveness. Federal farm programs are a factor determining whether U.S. agriculture is competitive in world markets. Awareness of this fact – and a willingness to commit to flexibility in response to changing world economic conditions – improves the possibility that domestic programs serve long-term goals of competitiveness and profitability.

The Commission strongly endorses the direction of domestic agricultural policy contained in the 1985 Farm Act, and commends the Congress and President for their commitment to pro-export and pro-trade agricultural policy objectives. It urges the Congress to stay the course of policy contained in the Act.

Current difficulties facing the U.S. agricultural industry are clearly critical, and demand resolution. The Commission believes that the nation and the federal government have an important responsibility for maintaining an opportunity for profitability within agriculture, in keeping with the vital contribution of agriculture to the nation's economy. However, **Congress must resist pressures to achieve solutions to our nation's agricultural problems through resort to high-price support policies and autarkic measures designed to require adjustments in acreage and production to serve domestic demand solely.** Such policies would be ruinous for our agricultural industry. Reductions in trade and production of the magnitude posed by such policies would clearly undermine the maintenance of the nation's agricultural production and delivery service, with concomitant adverse effects to our nation's consumers, industrial users of such products, and related industries. These industries and our domestic consumer demand must be maintained if United States agriculture is to continue to play the role in our national economy it currently plays. The recommendations contained elsewhere in this report hold a promise of improvement in our nation's agricultural trade performance. In the meantime, **assistance to U.S. domestic producers of commodities produced for or significantly reliant upon exports should be through means other than those which undermine U.S. price competitiveness or our current ability to serve international demand for the commodities and products we produce.**

Quality Considerations

The Commission recognizes that quality is a vital factor in maintaining U.S. competitiveness. The United States should always strive to maintain representative standards of quality, because the existence of doubt in regard to quality poses as great a threat to U.S. competitiveness as quality problems themselves. Industry should quickly resolve quality issues and report to Congress and the U.S. Department of Agriculture on needed changes. In the meantime, **Congress should resist pressure for precipitous readjustments of policy, pending the outcome of investigations called for in the 1985 Farm Act, or those underway within the agricultural industry itself.**

Cargo Preference

The Commission strongly opposes the concept of cargo preference as currently applied to food aid programs and, potentially, to other programs designed to expand sales of U.S. products.

The Commission recognizes that other interests may be served by cargo preference, but has seen little evidence that the objectives of the program are being met. While the Commission does not take issue with the need for maintaining a strong U.S. maritime industry, it does not believe that cargo preference applied to exports of U.S. farm products is the appropriate means to achieve this objective.

The Commission commends elements within the agricultural community for their recent efforts to negotiate some resolution of this issue. However, it does not believe that the compromise position contained in the 1985 Farm Act is workable or that it is in the interests of U.S. agriculture. **Congress and the Administration should reopen the issue of cargo preference for additional review, consistent with the objective to provide assistance to the U.S. maritime industry through means that do not involve exaction upon United States agriculture.**

The Commission believes that U.S. agriculture would lend its support to the maritime industry to strengthen the industry if cargo prefer-

ence requirements on agricultural products were eliminated. However, cargo preference is not supported by the U.S. agricultural community. Cargo preference requirements inflate the cost of U.S. agricultural exports, reduce the volume of such exports and, in recent years, have precluded operation of a blended credit program designed to enhance U.S agricultural export sales. The method of financing the program should not be by appropriation to the U.S. Department of Agriculture. Appropriations to carry out the program should be provided by Congress directly to the Maritime Administration. The Commission encourages the U.S. maritime industry to cooperate with agricultural interests toward a goal of greater viability for both industries, as a first step, through exempting agricultural exports from existing cargo preference requirements.

COMMENTARY

Trade policies and practices of the U.S. government do not operate in a vacuum, particularly in agriculture. U.S. domestic agricultural policies can determine the basic parameters of price, quality, and supply that underpin our ability to compete. Domestic maritime policies can govern the cost of delivering U.S. commodities and products to overseas customers.

These **domestic policies are critical factors in U.S. agricultural trade. They are also among the most controversial subjects that relate to the issue of U.S. agricultural competitiveness.**

Beginning in the 1970s, **there has emerged a striking consensus within U.S. agriculture on the basic direction of U.S. farm policy. The keynote of such consensus has been its export orientation.** United States agriculture must export. The alternative would be ruination of our total agricultural complex. At the same time, farm policy must provide benefit to U.S. farmers. Farmers have undergone tremendous financial strain in recent years. It is both appropriate and necessary that the federal government play a role in assisting them.

Most policy experts believe that, over the long run, a continuation of a heavily export-oriented farm program is the best answer to our farmers' current difficulties. The economic crisis in farm country has led to renewed demands for the establishment of high price supports and greatly increased acreage adjustment. However, Congress and the Administration has heretofore resisted movement backward toward such policy. The Commission believes that the direction of policy contained in the 1985 Farm Act bears the promise of greater profitability for agriculture in the future. In the meantime, **it is important that the pro-export consensus be maintained.**

Consensus in other matters may be less easily achieved. Quality questions and cargo preference law represent two such matters. Reasonable individuals will continue to differ on such questions, as they do in respect to domestic farm policy. However, **the bottom line insists that the objective of U.S. agricultural competitiveness be always at the forefront of debate.**

U.S. Domestic Agricultural Policy

Price is the keystone of competition. All other factors (quality, politics, transportation costs, etc.) being equal, the firm which offers the lowest price is the one which closes the sale. **In agricultural trade, the American price is regarded as the international reference price for many commodities.** This is due to a number of factors. The United States is the world's largest exporter and second largest importer of agricultural commodities. In addition, the sophisticated price discovery system, represented by the 11 American futures exchanges, enables markets to react almost instantaneously to shifts in supply and demand factors. Finally, as mentioned earlier, the dollar has become a form of global currency. Most commodity transactions worldwide are settled in dollars.

Farm programs which affect the price of U.S. commodities, therefore, also influence the price and trade flows of world commodities. Since price enhancement is frequently one of the major objectives of U.S. farm policy, it is instructive to briefly examine that policy from a trade as well as a domestic perspective.

<u>The Past.</u> Since the 1930s, federal farm programs have played an important role in governing the size and type of agricultural production. Over the years, the government has relied chiefly upon three policy tools: price supports, supply controls, and income supports.

Many analysts have argued that the ex-

port boom of the 1970s created a condition in which traditional farm programs not only failed to accommodate the increased demand, but actually worked against it. U.S. competitiveness, they argued, was hampered by inflexible programs that encouraged overproduction at home and abroad, and overpriced American commodities, causing the United States to lose its share of the world market.

High nonrecourse loan rates are frequently mentioned as the chief culprit. When the loan rate is set above market-clearing levels, farmers simply turn their crops over to the Commodity Credit Corporation (CCC) and retain their loans. Thus, loan rates act as a price floor for U.S. farmers.

At the same time, however, **a high U.S. loan acts as a price umbrella for foreign producers.** Imagine a situation in which, in an unrestricted trade environment, world supply/demand conditions would naturally set the price of wheat at $3.00 per bushel. Despite strong market signals, however, the American price of wheat will not fall much below the nonrecourse loan level (in 1985) of $3.30 per bushel. Non-U.S. exporters with comparable production costs would be able to price their wheat a nickel under the United States, capture market shares, and still walk away with a windfall profit.

The target price/deficiency payment program has also been criticized for eroding the American competitive position. Critics charge that artificially high target prices have encouraged U.S. farmers to maintain or increase production even when stocks are high and prices are low. Deficiency payments are directly proportional to output: the more a farmer harvests, the larger his payments (subject to a $50,000 limit per person on regular deficiency payments). The assurance of large deficiency payments, many analysts agree, has induced farmers to bring additional acreage under cultivation. In the aggregate, this has increased production nationwide.

Finally, supply management programs – set asides, acreage reductions, and the farmer-owned reserve – are criticized as being inefficient and illogical methods for responding to low prices. Many observers point out that land diversions and set-asides usually fail to achieve their objectives; because of slippage, a 20 percent land retirement program never results in a 20 percent decline in production. Many also question why the United States should unilaterally bear the costly burden of international supply adjustment. Moreover, extensive use of the farmer-owned reserve and large CCC takeovers mean that the U.S. pays the price of holding world stocks. Finally, the short-term price-enhancing aspects of supply controls contribute to making the United States the world's residual supplier of grains.

Critics of traditional farm programs summarize their arguments by noting that, although exports represent approximately one-third of total demand for agriculture, the United States has steadily lost market shares in recent years because of the inflexibility of domestic farm programs.[1] High support and target prices also encourage continual overproduction, which is costly for U.S. taxpayers.

<u>The Present.</u> **On December 23, 1985, President Reagan signed the Food Security Act (P.L. 99-198) into law.** Final approval by the White House signaled the end of a long, often bitterly-fought debate over the extent and nature of the government's role in agriculture.

To many, the five-year omnibus farm bill represented a radical departure from past agricultural policy. Although the basic programs were retained, Congress reversed the trend of ever escalating price support rates. Changes made in domestic programs, therefore, actually constitute a particularly noteworthy feature for the trade sector.

Under the new law, price supports were lowered for 1986, and linked to historical market prices in future years. The formula for major commodities sets the loan rate at a level between 75 and 85 percent of the average market price for the preceding five years (excluding the high and low years). The loan rate reduction would be accomplished gradually. The level would not be allowed to be lowered by more than 5 percent per year.

The law contains an additional incentive for increasing price competitiveness: the so-called "Findley provision." Under this provision, the Secretary could elect to lower the loan up to an additional 20 percent, provided that he offered producers emergency deficiency payments to compensate for their losses. Before stepping down from office, former USDA Secretary John Block elected to use the Findley provi-

sion to its fullest extent.

The 1985 Farm Bill lowered the loan rate for wheat from $3.30 per bushel to $3.00 per bushel. for 1986. However, the use of the Findley provision meant that the 1986 loan could be lowered another 20 percent – to $2.40 per bushel as it was. Loan rates for other major commodities were reduced in like manner. Most analysts feel that the new levels will be sufficiently below the world price to allow the United States gradually to become price competitive once again.

On the other hand, lawmakers left short-term income supports largely untouched. Under the new law, target prices for wheat and feed grains were frozen for 1986 and 1987; after that, they may be lowered only by 2 percent in 1988, 3 percent in 1989, and 5 percent in 1990. The $50,000 payment limitation was maintained for regular deficiency payments, but waived in the case of compensatory deficiency payments under the Findley provision. The Administration, contemplating sizeable deficiency payments, objected to the target price provisions, but accepted the agreement in the interests of compromise. The White House announced that it would continue to seek deeper, earlier cuts in target prices.

The 1985 Farm Bill also called for more extensive supply controls which would be tied to carryover levels. In the case of wheat, the bill allows the Secretary to require acreage limitations of up to 25 percent in 1986, 27.5 percent in 1987, and 30 percent in 1988-1990. For feed grains, the ceiling is set at 20 percent for 1986-1990. It is hoped that the increased acreage reduction requirements will serve to counteract the production incentive of continued high target prices, and that the resultant price enhancement will hold down deficiency payments.

Taken as a whole, the 1985 Farm Bill represents an attempt to accomplish two goals: 1) balance the short-term cash flow needs of producers through direct income transfer; and 2) respond to the United States' need to become price competitive in world markets through lowering the nonrecourse loan rate.

It seems certain that neither goal can be accomplished completely or immediately. Unfortunately, the law's income assistance provisions alone will not be sufficient to rescue many financially troubled farmers. Despite a possible maximum deficiency payment of $1.98 per bushel, many highly leveraged wheat producers will probably not make it through the next few seasons. Coarse grains producers will be similarly hard-pressed. A study by the Office of Technology Assessment forecasts that there will be almost one million fewer farmers in the United States at the end of this century than there are today.[2]

Although lower prices will probably stimulate greater export volumes, it is not anticipated that total export revenues will rise appreciably in the short term. Most analysts forecast a four-year lag before export values recover their earlier levels.[3]

A Commitment to Agriculture

Government has an obligation to ensure that its policies maintain an environment that is conducive to a healthy, efficient, and profitable U.S. agricultural system.

U.S. agricultural policies should be based on a commitment to competitiveness and profitability. A commitment of this nature demands a long-term approach to agricultural issues. Government must be consistent in its treatment of agriculture. Farmers, agricultural businesses, and the workers whose jobs depend on agriculture should not be subject to stop-start changes in farm or trade policies.

The future of American agriculture should not be restrained by government uncertainty and a failure to commit to a strong American agriculture. **Long-term policies should be in place that provide efficient producers the ability to adjust to changing world economic conditions, with adequate provision for income stabilization during periods of transition.**

Maintaining a long-term commitment to competitiveness and international comparative advantage should be an important goal of government farm policies. However, such policies should not be conceived as operating in a vacuum. Today, unfair practices of competitor nations impair the competitive environment. Government economic policies here and abroad directly affect pricing, production, and investment decisions. Uncertainties over policy stifle initiative and long-term planning and can be counterproductive to a competitive environment. U.S.

policy makers should recognize these factors in determining the appropriate direction of both farm and trade policy.

Changes in U.S. farm export performance translate consequences directly to domestic programs, both in terms of need and cost. Conversely, changes in domestic programs have a potential to advance or diminish the opportunities which exist for U.S. agriculture under competitive market conditions.

Farm programs provide a price floor for many commodities against which other nations compete. Government has a responsibility to ensure that this policy does not result in uneconomic production at home or abroad. At the same time, farm producers should not be asked to face lower prices if government is unprepared to aggressively pursue fairer world markets for agricultural commodities and products.

International macroeconomic factors and unfair trade practices of foreign countries have eroded the competitive situation in the world and the competitive position of U.S. agriculture in recent years. This has undercut the effectiveness of domestic farm programs, causing them to be both more costly and less useful as a means to provide an opportunity for profitability to agriculture. Nevertheless, such programs remain an important source of income to the farm sector.

U.S. producers face very serious economic problems. Consider the following:

Net Farm Income is Down. Net farm income declined by almost one-half from 1981 to 1984. Total net farm income adjusted for inflation fell to $9.4 billion in 1985, a level comparable with farm income in the Depression years, and it is expected to fall to between $7 to $9 billion in 1986.

Total Farm Indebtedness is Up. Farmers of all commodities, in every region on the country, face unprecedented financial stress: 22 percent of all U.S. farm operations faced a debt-to-asset ratio exceeding 40 percent on January 1, 1985; 8 percent of all farms had debt-to-asset ratios above 70 percent and were in imminent danger of economic collapse. Total U.S. farm debt is expected to exceed $204 billion in 1985. While estimates indicate a decline in total farm indebtedness in 1986 to between $194 billion to $202 billion, these estimates reflect the depreciation of total debt which has resulted from the disastrous decline in farm assets. The incidence of farm bankruptcies more than doubled from 1983 to 1984, and the trend is expected to continue, at least in the near term.

The Value of Farm Assets is Down. The value of farm real estate continued its rapid decline in 1986. Farm equity may decline by up to 13 percent this year, the sixth straight year in real terms. The loss in farm equity in 1985 totalled $78 billion. It could reach as high as $93 billion in 1986.

Farm Prices are Down. Following a short period of relief brought on by the dual effect of drought and PIK, farm prices declined in 1984-1985 to trend levels consistent with 1982-1983. The ratio of prices received to prices paid dropped by 8 percent in 1985 and are expected to decline by 11 percent in 1986, under normal marketing conditions.

Commodity Program Costs are Up. Less than expected sales of U.S. farm products have caused the cost of farm programs to soar from $2.8 billion in Fiscal Year 1980 to record levels of $21.6 billion in Fiscal Year 1985 and a currently estimated level of between $21 billion and $25 billion in Fiscal Year 1986.

Commodity program costs of this scale are likely to continue in the near future, provided normal marketing conditions and the absence of further expansion of U.S. agricultural export demand.

A Commitment to the Nation

The health of the agricultural economy has a direct bearing on the health of total U.S. economy and the well being of all American citizens.

In 1982, the farm and food system of the United States generated over $625 billion, fully one-fifth of the nation's total Gross National Product (GNP). One of every five persons employed in the United States or 24.1 million persons, earned their livelihood in some segment of the food and food system. Farmers spent $142 billion in 1982 for goods and services to produce their crops and provide for their personal needs. Every dollar spent to make a crop or to market a good translates directly into income for the nonfarm sector. Conversely, every dollar less is a job lost, a service unperformed, or a need unmet.

Society benefits if government policies maintain an environment that is conducive to profitability of the U.S. agricultural system. This goal cannot be accomplished solely through domestic farm programs. Trade policy can play an important role in advancing the goal of greater profitability of agriculture. Most of the growth potential of U.S. agriculture is in export markets. Agricultural exports have the potential to make the economic pie larger not only for agriculture but for the U.S. economy as a whole. But this can happen only if we maintain our competitiveness in world markets. Domestic programs should be designed to allow U.S. agricultural commodities and products overseas to be competitively priced in overseas markets. However, government should provide assistance to farm producers during transitional periods to fairer markets. Farmers and agricultural businesses should play their part in reducing federal deficits; yet programs designed to immediately eliminate all government involvement in agriculture are not feasible at this time.

Past policy of the U.S. government in respect to trade and agricultural policy has been makeshift and short-term in perspective. A long-term policy is needed now.

The Commission supports the objective of a long-term domestic farm policy with flexibility to allow for adjustments to world economic conditions. An efficient system of agriculture must be maintained in the United States to build profitability into the nation's future.

It should be a major policy objective of the United States to capitalize on the productive and technological expertise of our agricultural community, directing this talent to the advancement of economic and social goals, both domestically and abroad. The maintenance of our agricultural productivity is mandatory if the United States is to continue its unequalled response to catastrophic world hunger and trade-related economic development.

National resources should be protected and preserved. Support for agricultural research and education should be maintained.

The Commission believes that a complementarity exists between domestic and export programs that can serve the goal of agricultural competitiveness and profitability. There is a direct relationship between domestic farm programs and U.S. agricultural competitiveness. Federal farm programs are a factor in keeping U.S. agriculture competitive in world markets. Awareness of this fact – and a willingness to commit to greater flexibility in response to changing world economic conditions – would improve the possibility that domestic programs serve long-term goals of competitiveness and profitability.

Quality Consideration

In the last two years, the agricultural community has experienced a sharp controversy over the export quality of American grain. The debate finds some commodity organizations, members of Congress, and importers lined up on one side, with grain traders and handlers on the other.

Official buyer complaints to the Federal Grain Inspection Service (FGIS) rose last year, and a good deal of largely anecdotal evidence would seem to suggest a deterioration in the quality of grain being shipped by the United States. Grain quality has been on the agenda of numerous reports in the media, and has been on the agenda of discussion at farm group conventions.

Essentially, the issue breaks down into an argument over whether higher prices, lower quality, or a mixture of both are to blame for sagging exports of U.S. farm products. Proponents of grain quality legislation argue that foreign buyers are turning to other producing nations because of the poor quality of U.S. grain. They contend that excessive dockage, foreign material, and moisture are ruining the U.S. image as a reputable supplier. They particularly object to the practice of blending. Grain warehouses, they claim, often begin with clean grain and then add dust, inferior grain and/or nongrain material in order either to bring the grain down to the next grade level, or just to stay within admissible standards.

They also object to the manner in which dockage is certified. According to official U.S. grain standards, dockage may be rounded down to the nearest .49 percent. Although this may not sound like much, it becomes a significant figure when one reckons with major grain shipments. For example, the inspection certificate for a 1 million bushel shipment can legally show zero percent dockage, when in fact 4,900 bushels of dockage are present.

Representatives of the U.S. grain trade contend that the whole debate is fueled by the question of price. Because the value of the dollar and high loan rates have raised the price of U.S. grain to foreign buyers, importers are more likely to use quality as a bargaining chip in order to obtain a more favorable price, they argue. Cleaner grain is more expensive grain, and someone has to pay the price.

Some traders admit that there may have been a marginal increase in dockage and foreign material in the past few years, but they assert that this is solely due to the introduction of more advanced equipment and technology, which allow grain to be loaded closer to specifications. The quality of U.S. export grain – measured according to official standards – has not deteriorated, representatives of the grain trade maintain. As evidence, they cite a 1984 study by FGIS, which found that the quality of U.S. grain generally met official standards. In addition, they note that those shipments about which complaints are made represent less than 5 percent of the volume of total U.S. grain exports.

A recently issued report by the General Accounting Office (GAO), however, implies that such arguments miss the point. First of all, because of the U.S. dockage rounding procedure explained above, some buyers may still wind up paying for a considerable amount of nongrain material. Second, "foreign buyers often did not report their complaints to USDA because USDA can do nothing to help them resolve disputes with U.S. exporters."[4]

During work on the 1985 Farm Bill, several members of Congress offered proposals intended to improve export grain quality. A bill by Rep. Cooper Evans (R-Iowa) was incorporated into the House version of the omnibus bill. The measure would have prohibited the reintroduction of "dockage or foreign material (including but not limited to dust or particles of whatever origin) once removed from grain . . . when there is any possibility that the recombined product may be exported from the United States."[5]

Grain traders objected to the proposal on the grounds that it had been voted upon without having first been subjected to the normal hearing process. Several important points were therefore ignored, they claim. For example, grain is frequently "overcleaned" at the elevator, and then blended during loading to fit contract specifications. Traders and warehousemen claimed that the Evans proposal would have forced unwarranted changes in commercial practices (i.e., blending) without addressing the real problem of grain standards and grading.

The Evans amendment was deleted during conference committee consideration of the farm bill. Conferees substituted instead a proposal by Sen. Abdnor (R-South Dakota) which calls for a comprehensive study of the grain quality issue by the congres- sional Office of Technology Assessment by December 1, 1986.

In the meantime, however, the grain quality issue is far from dead. New legislation has been introduced in the House and Senate. Critics of the current system continue to call for changes. Among other changes, they have suggested the following measures:

- reduce the dockage rounding standard from .49 percent to .10 percent;
- provide producers and exporters who deliver clean grain with incentive payments, in cash or commodity;
- require FGIS to perform spot checks of American grain deliveries at overseas ports;
- prohibit blending of grain lots with different moisture contents;
- develop new seed varieties that would more easily withstand breakage during handling;
- revise the Commodity Credit Corporation's premium and discount schedules to reflect higher value of cleaner grain.

Some observers believe that all the talk about quality will die down once agricultural exports pick up again – hopefully, in another year or so. Others, however, fear that the quality debate may become something like a self-fulfilling prophecy: the more Americans flagellate themselves over the poor quality of their own grain, this reasoning runs, the more the rest of the world will come to perceive the U.S. as a supplier of low quality grain, facts notwithstanding.

The grain industry for its part, continued to seek a consensus solution to the issue. **In January 1986, the North American Export Grain**

Association began holding a series of meetings attended by representatives of 40 organizations, including general farm and commodity groups, storage associations, universities, and exporters. In July, the ad hoc group unveiled a list of proposals and recommendations intended to improve the quality of U.S. export grain. The suggestions dealt with dockage rounding, wheat protein measurements, moisture blending, infestation, shiplot loading plans, and a host of other issues. **Although the group's ideas were well-received by both Congress and the Executive branch, and are expected to have a significant impact on U.S. grain standards and inspection procedures, some in the agricultural industry believe even more work needs to be done.**

Cargo Preference

Although the United States' domestic transportation system is generally responsive and competitive, there are some problems in the area of ocean transportation. One dark cloud ever present on the horizon for agricultural exports has been a maritime industry subsidy program known as cargo preference. Enacted in 1954, the major cargo preference law requires that 50 percent of all U.S. government-sponsored cargoes be shipped on vessels registered in the United States.

Cargo preference is defended by its supporters on national security grounds: they claim that the program is intended to help support the U.S. merchant fleet, thereby assuring that the United States would have sufficient ability to move troops and materiel in time of war. This position, while possibly merited, has been subject to question by the agricultural community because the cost of maintaining such maritime subsidies has been at the expense of the agricultural community, at least in terms of government funding.

For more than three decades, cargo preference applied only to the P.L. 480 (Food for Peace) program. But then in early 1985, a Federal District Court determined that the program should also apply to the newly-developed Blended Credit program. Shortly after the ruling was announced, then-Secretary of Agriculture John Block suspended the Blended Credit sales of $536 million worth of wheat products to several Middle East countries. Department officials argued that the application of cargo preference for that transaction alone would have entailed $40-50 million in additional transportation costs. These additional expenses, they reasoned, would effectively negate the benefit of the credit buydown. The Blended Credit program remained on ice for the rest of that year.

The December passage of the 1985 Farm Bill brought renewed hope for some members of the agricultural community in the form of a compromise provision on cargo preference hammered out between certain maritime and farm interests. Under the agreement, cargo preference requirements will be gradually increased from 50 percent to 75 percent of all P.L. 480 shipments, with any additional costs above the 50 percent mark being funded by the Department of Transportation. In return, the law specifically exempts USDA export credit programs from cargo preference requirements.

The cargo preference compromise remains controversial. It was adamantly opposed by numerous farm groups and agribusinesses. Many feared that renewed legal efforts to apply cargo preference to agriculture would leave the farm sector in a worse position. These groups contend that the cargo preference program has failed to meet its objective of maintaining a strong merchant fleet and should be eliminated on those grounds alone. They are continuing to press for an exemption from cargo preference or, at a minimum, the transfer of cargo preference funding from the USDA budget to that of the Department of Transportation's Maritime Administration.

In any event, the agreement may already be in jeopardy. The new cargo preference provision contained in the omnibus farm law contains a so-called "snapback" provision, which says that if Congress should fail to appropriate funds sufficient to cover the additional cargo preference costs of P.L. 480, the new arrangement would be void, and agricultural export programs would be once more subject to cargo preference.

The new budgetary limits imposed by the Gramm-Rudman-Hollings deficit reduction law make it highly unlikely that either Congress or the Administration would sign off on the $48 mil-

lion in additional cargo preference costs which the Department of Transportation has earmarked for transfer to the Commodity Credit Corporation. Failing that, cargo preference would once more be applied to blended credit shipments and to the intermediate credit program as well. In addition, some fear that the maritime industry will take further legal actions to have cargo preference extended to the GSM-102 guaranteed credit program and the Export Enhancement Program.

America's agriculture and its shipping industry have both been ravaged by the world recession and the attendant fall in trade in the early part of this decade. The cargo preference question has been especially divisive in this time of severe budgetary constraint. Now more than ever, it is necessary for these two beleaguered industries to seek a fair and lasting solution to this issue.

However, if all agricultural credit and food assistance programs are made subject to cargo preference, as some maritime representatives demand, and if the additional shipping costs are paid out of USDA appropriations, then future U.S. credit packages and food aid will become fewer and smaller, and the competitiveness of American agriculture will suffer accordingly.

Additional information regarding cargo preference, which originally appeared as part of the Commission's Interim Report, is attached hereto.

REFERENCES

1. Meyers, Thamodaran, and Helmar note that "[i]n the case of coarse grains ..., the United States absorbed 76 percent of the 17.7 mmt decline in world exports between 1980 and 1983." Confrontation or Negotiation: United States Policy and European Agriculture. Reports from a Public Policy Study of the Curry Foundation. Associated Faculty Press. Millwood, N.Y., 1985. p.143.5 "Institutional Constraints on Foreign Exchange Markets: A Comparison of Agricultural and Nonagricultural Trade Flows," David M. Henneberry. Oklahoma Current Farm Economics. Volume 58, No. 3. September, 1985. p.25.

2. U.S. Congress. Office of Technology Assessment. Technology, Public Policy, and the Changing Structure of American Agriculture. OTA-F-285. Washington, D.C., 1986. p.9.

3. See especially testimony by Robert L. Thompson, Assistant Secretary of Agriculture for Economics, before the Senate Agriculture Subcommittee on Foreign Agricultural Policy, June 3, 1986.

4. U.S. General Accounting Office. Resources, Community, and Economic Development Division. U.S. Grain Exports: Concerns About Quality. GAO/RCED-86-134. May, 1986. Washington, D.C., p.12.

5. H.R. 2100, Title XVIII, Subtitle F, Section 1872.

Additional Information Regarding Cargo Preference - As Reported in the Commission's Interim Report to the President and the Congress

A major share of the cost of cargo preference results from exports under U.S. food aid programs. In the 30 years since the enactment of P.L. 480, the total cost of cargo preference has been more than $1 billion. Currently, costs are running around $75 million annually and are expected to exceed $100 million in 1985.

Costs associated with cargo preference in the Title II program generally are lower than those incurred under Title I because the volume of commodities is lower and there is less use of bulk carriers. In 1984, $20.2 million was spent on ocean freight differentials under the Title II program. This included $1.3 million for processed grain products, $0.8 million for bagged grain and $18.1 million for bulk commodities.

P.L. 480 Title I/III EXPENDITURES
($ millions)

Year	Commodities	Ocean Freight — Differential	Total
1977	723.1	75.5	798.6
1978	671.1	62.6	733.7
1979	754.5	122.5	827.0
1980	845.8	63.0	908.8
1981	781.3	65.1	846.4
1982	712.0	120.1	832.1
1983	766.0	77.2	843.2
1984 (est)	781.0	69.5	850.5
1985 (est)	997.0	109.0	1,106.0
1986 (est)	921.5	108.5	1,030.0

A subsidized flour sale to Egypt in early 1983 was subject to cargo preference because the price of the flour was reduced to meet the EC level of prices of approximately $160 per metric ton. Since a subsidy was involved, cargo preference was applicable. The sale was made using Commodity Credit Corporation stocks of wheat. U.S. flour millers placed bids on wheat stocks from CCC holdings as to the volume of "free" wheat needed in order to sell the flour to Egypt at a reduced price. Since the flour mills were aware that the cost of shipping to Egypt would be increased by the requirement that half the flour go on U.S. bottoms, they increased the volume of wheat needed. ASCS estimates that an additional 6 million bushels of U.S. wheat from CCC stocks were used to offset the increased cost of U.S. bottoms. Based on prices at the time, the estimated cost to CCC was $24 million.

In late February 1985, a court ruling was handed down that cargo preference laws were applicable to the Blended Credit program. Blended credit is a mixture of direct government loans and credit guarantees to banks. Under the program, the blend was generally 20 percent direct credit at zero interest rate and 80 percent of guarantees at the prevailing commercial interest rate.

The direct credit portion was ruled by the courts to constitute a subsidy and, therefore, cargo preference laws were applicable. This means, of course, that 50 percent of the shipments under

blended credit must be in U.S. bottoms at rates $20 to $50 per ton above non-U.S. flag carrier rates. (Only wheat sales to North Africa and a small wheat flour sale to Iraq were programmed under the blended credit program.) Cargo preference would add between 8 percent and 15 percent to the cost of a ton of wheat (approximately $150). The 20 percent interest subsidy will hardly offset the 8-15 percent increase in the landed price of the commodity. In this instance, cargo preference effectively kills a successful effort to combat unfair EC trade practices and reduces the export volume for U.S. wheat farmers.

According to USDA, companies that received payments in 1984 for ocean freight differentials under Titles I and III of P.L. 480 are:

Company	Payments
Lykes Steamship Co., Inc.	$ 9,356,765
Ultimar Shipping Co., Inc.	8,934,407
Central Gulf Lines, Inc.	7,561,504
Phoenix Bulkship, Inc.	7,395,741
American President Lines, Inc.	5,311,396
Equity Carriers III, Inc.	2,863,950
Waterman Steamship Co.	2,781,852
Delta Steamship Lines, Inc.	2,633,032
Apex Marine Corporation	2,449,000
A.P. St. Philip, Inc.	1,981,650
Asco-Falcon II Shipping, Inc.	1,650,949
Ogden Missouri Transport Inc.	1,587,832
Archon Marine Co.	1,434,160
Universal American Barge Corp.	1,298,500
Ocean Barge Corp.	1,267,537
Transbulk Carriers, Inc.	1,115,224

A total of 14 other companies received payments for ocean freight differential in 1984 for shipments under P.L. 480, with amounts ranging from $13,869 up to $852,066.

Other data pertaining to cargo preference is attached.

Public Law 480—Total Ocean Transportation Payments Financed by CCC from Inception of the Program

Fiscal Year	Title I: Foreign Currency Sales: Freight Differential[a]	Transportation[b]	Total	Title I: Long-term Credit Sales: Freight Differential[a]	Transportation[b]	Total	Title II—Foreign Donations: Government-to-Government and World Food	Voluntary Agencies	Total
1955	$ 896,955	$ 8,680,935	$ 9,577,890	—	—	—	—	—	—
1956	3,642,893	16,616,090	20,258,983	—	—	—	—	—	—
1957	4,511,120	46,069,858	50,580,978	—	—	—	$ 4,058,932	$ 29,921,965	$ 33,980,897
1958	23,568,323	30,201,443	53,769,766	—	—	—	7,424,372	20,473,658	27,898,030
1959	37,067,490	36,754,798	73,822,288	—	—	—	9,035,442	27,689,244	36,724,686
1960	39,655,613	39,922,962	79,578,575	—	—	—	3,863,662	21,164,567	25,028,229
1961	59,616,556	48,065,864	107,682,420	—	—	—	17,813,437	26,247,791	44,061,228
1962	48,277,566	50,138,067	98,415,633	$ 595,983	$ 605,216	$ 1,201,199	26,166,431	43,508,319	69,674,750
1963	79,550,217	67,502,423	147,052,640	1,417,234	2,361,008	3,778,242	23,912,729	38,023,251	61,935,980
1964	67,110,631	74,606,012	141,716,643	1,761,470	2,737,625	4,499,095	26,446,443	51,695,004	78,141,447
1965	72,453,486	76,382,037	148,835,523	7,301,003	10,519,551	17,820,554	16,959,921	48,499,014	65,458,935
1966	61,373,444	21,423,175	82,796,619	9,764,108	11,478,749	21,242,857	29,335,377	51,033,180	80,368,557
1967	74,296,322	33,257	74,329,579	6,850,822	7,593,338	14,444,160	30,244,956	41,209,920	72,454,876
1968	44,388,152	—	44,388,152	24,787,406	23,795,108	48,582,514	32,008,099	37,101,509	69,109,608
1969	27,535,232	39,139	27,574,371	36,219,226	29,176,282	65,395,508	37,649,470	39,117,085	76,766,555
1970	18,223,689	−14,362	18,209,327	39,174,256	15,520,133	54,694,389	40,488,485	46,087,830	86,576,315
1971	10,841,470	—	10,841,470	39,265,500	1,407,311	40,672,811	50,365,946	40,829,259	91,195,205
1972	10,698,987	—	10,698,987	60,339,992	1,602,572	61,942,564	70,216,560	47,651,174	117,867,734
1973	2,616,925	—	2,616,925	54,018,038	324,404	54,342,442	57,145,694	46,689,080	103,834,774
1974	290,224	—	290,224	10,200,905	159,492	10,360,397	51,814,675	49,745,874	101,560,549
1975	−587,168	—	−587,168	21,239,966	1,423,067	22,663,033	45,919,697	80,715,236	126,634,933
1976	−273,283	−43,973	−317,256	41,983,458	—	41,983,458	22,455,828	58,467,385	80,923,213
19TQ	—	—	—	16,811,813	—	16,811,813	6,502,732	19,500,909	26,003,641
1977	—	—	—	75,451,688	—	75,451,688	23,232,491	73,668,031	96,900,522
1978	—	—	—	62,615,570	—	62,615,570	32,709,553	97,866,425	130,575,978
1979	—	—	—	72,526,121	—	72,526,121	39,638,415	109,556,180	149,194,595
1980	—	—	—	62,990,183	—	62,990,183	64,137,975	121,505,445	185,643,420
1981	—	—	—	65,092,431	—	65,092,431	103,909,405	152,846,396	256,755,801
1982	—	—	—	120,119,970	—	120,119,970	74,134,695	120,117,598	194,252,293
1983	—	—	—	77,192,249	—	77,192,249	63,165,125	103,162,743	166,327,868
1984				55,226,110	—	55,226,110			
1985				91,763,000	18,332,000	110,095,000			
1986 (est.)				104,400,000	16,600,000	121,000,000			
TOTAL	$685,754,844	$516,377,725	$1,202,132,569	$1,159,108,502	$143,635,856	$1,302,744,358	$1,010,756,574	$1,644,094,072	$2,654,850,646

[a]Represents the difference between the United States-flag rates and the foreign-flag rates on quantities required to be carried on United States-flag vessels in compliance with the Cargo Preference Act.

[b]Foreign currency deposits or dollar payments were required for the value of transportation costs financed for foreign currency and long-term credit sales, respectively.

Appropriate Attention To The Maintenance Of Policies That Safeguard U.S. Agricultural Competitiveness

Accompanying Information Regarding Cargo Preference

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American Farm Bureau Federation

THE VOICE OF AGRICULTURE — AMERICAN FARM BUREAU FEDERATION

AN ECONOMIC ANALYSIS OF EXTENDING CARGO PREFERENCE TO U.S. CASH EXPORT SALES OF AGRICULTURAL COMMODITIES

By

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June 25, 1984

Summary Findings

The proposed cargo preference rules will reduce farm income by at least $1.2 billion and have the potential to decrease farm income by $7.9 billion. The economic analysis in this paper indicates that cargo preference requirements will have a direct and predictable negative impact on the U.S. farm economy. Shipping and transportation costs were assumed to increase by $40 to $65 per ton for grains shipped in American flagships under the proposed legislation. Extending cargo preference requirements to agricultural trade would substantially reduce agricultural exports and farm commodity prices. This is in direct conflict with overall U.S. economic policy objectives of expanded agricultural exports and higher farm incomes.

*A revision of the original study of April 22, 1983.

AN ECONOMIC ANALYSIS OF EXTENDING CARGO PREFERENCE TO U.S.

CASH EXPORT SALES OF AGRICULTURAL COMMODITIES[1]

Extending cargo preference to all exports and imports including farm commodities would decrease agricultural exports, reduce farm income, increase federal farm program costs, nullify the blended credit program, increase the effective or landed costs of agricultural commodities to foreign buyers and decrease jobs in the transportation and export industries. Extensively applying cargo preference requirements to agricultural exports will further lead the United States into becoming a residual supplier of agricultural commodities unless world supplies are extremely tight and world demand becomes strong enough to offset the added costs of the cargo preference rules. The outlook, however, is for expanding world supplies and only moderate demand growth for the major farm commodities. Thus, foreign buyers would be forced to buy agricultural commodities in other markets at competitive prices without paying the additional transportation charges associated with cargo preference.

The following economic analysis shows some of the likely impacts if cargo preference had been applied to U. S. cash export sales of corn, wheat and soybeans in the 1982-83 crop year.[2] The analysis presents two alternative applications of cargo preference: 5 percent and 20 percent cargo preference. The analysis also shows the likely impacts of cargo preference rules, if tax credits for increased shipping costs are included.

Since moving grain and soybeans in U. S. flag vessels is more expensive than using larger more efficient foreign flag vessels, three alternative scenarios of shipping cost differentials are presented. Alternative shipping cost differentials for bulk corn, wheat and soybeans are assumed to be $40, $52 and $65 per ton.[3] To adjust the shipping figures for proposed tax credits, shipping cost differentials were reduced by ten percent. Therefore, shipping cost differentials were reduced from the range of $40-65 per ton to the range of $36-59 per ton.

A 5 percent cargo preference in effect in 1982-83 would have required 5.6 million metric tons or 214 million bushels of U. S. grain and soybean exports to be shipped in American flag vessels. A 20 percent cargo preference would have required 22.7 million metric tons or 857 million bushels of U. S. grain and soybean exports to be shipped in more expensive American flag vessels in 1982-83 (Table 1).

TABLE 1

1982-1983 U.S. EXPORTS OF CORN, WHEAT AND SOYBEANS

UNITS(MILLIONS)	CORN	WHEAT	SOYBEANS	TOTAL
METRIC TONS	47.50	41.10	24.63	113.23
BUSHELS	1,870.00	1,509.00	905.00	4,284.00
EXPORTS SUBJECT TO A 5% CARGO PREFERENCE				
METRIC TONS	2.38	2.06	1.23	5.6
BUSHELS	93.50	75.45	45.25	214.20
EXPORTS SUBJECT TO A 20% CARGO PREFERENCE				
METRIC TONS	9.50	8.22	4.93	22.65
BUSHELS	374.00	301.80	181.00	856.80

With a 5 percent cargo preference in effect in 1982-83, increased shipping costs would have likely increased by 226 to 368 million dollars (Table 2). A 20 percent cargo preference would have increased shipping costs by .906 to 1.5 billion dollars.

The average farm price of corn in 1982-83 was $2.68 per bushel; wheat price was $3.55 per bushel; and soybean price was $5.69 per bushel. Taking these average farm prices as given, the additional shipping cost resulting from a 5 percent cargo preference is equivalent to 35 to 53 million bushels of corn, 29 to 46 million bushels of wheat and 13 to 17 million bushels of soybeans. The additional shipping costs for a 20 percent cargo preference translates into 142 to 213 million bushels of corn, 116 to 185 million bushels of wheat and 52 to 69 million bushels of soybeans.

Given the competitive nature of the agricultural and grain industries in the world, the increased shipping costs would not be passed on to the foreign buyer. Foreign buyers would purchase needed agricultural commodities in the world market at competitive prices without paying the additional transportation charges. Thus, the world market place would force domestic grain prices in the U.S. to remain competitive. The increase in shipping costs would then be transferred back down the marketing chain to U.S. farmers in the form of reduced exports. Competitive forces in the U.S. economy would cause the resulting reductions in agricultural exports to lower farm prices for grain and soybeans. Lower farm prices would decrease farm income.

TABLE 2

LIKELY INCREASES IN SHIPPING COSTS BECAUSE OF CARGO PREFERENCE
IN MILLIONS OF DOLLARS (NO TAX CREDITS INCLUDED)

SCENARIO /1	CORN	WHEAT	SOYBEANS	TOTAL
		5% CARGO PREFERENCE		
A	95.00	82.20	49.26	226.46
B	123.50	106.86	64.04	294.40
C	154.38	133.58	80.05	368.00
		20% CARGO PREFERENCE		
A	380.00	328.80	197.04	905.84
B	494.00	427.44	256.15	1177.59
C	617.50	534.30	320.19	1471.99

TABLE 3

LIKELY INCREASES IN SHIPPING COSTS BECAUSE OF CARGO PREFERENCE
IN MILLIONS OF DOLLARS (TAX CREDITS INCLUDED)

SCENARIO / 1	CORN	WHEAT	SOYBEANS	TOTAL
		5% CARGO PREFERENCE		
A	85.50	73.98	44.33	203.81
B	111.15	96.17	57.63	264.96
C	138.94	120.22	72.04	331.20
		20% CARGO PREFERENCE		
A	342.00	295.92	177.34	815.26
B	444.60	384.70	230.54	1059.83
C	555.75	480.87	288.17	1324.79

/1 SHIPPING COST DIFFERENTIALS FOR CORN, WHEAT AND SOYBEANS FOR SCENARIOS A, B AND C ARE: $40, $52 AND $65.

It is important to note that the reduction in agricultural exports would have a multiplied effect on farm prices. That is, by reducing exports, the U.S. farm economy not only loses out on the sale of agricultural commodities to foreign buyers, but the farm price is reduced by a multiple amount over and above the increase in shipping costs. For example, past experience and research indicates that a 100 million bushel reduction in corn exports will reduce the season's average price of corn by $0.16 per bushel and the season's average price of soybeans by $0.22 per bushel. A reduction in wheat exports of 100 million bushels will reduce the season's average price of wheat by $0.32 per bushel and the season's average price of corn by $0.06.

Reductions of soybean exports of 100 million bushels will decrease the season's average price of soybeans by $0.81 per bushel and the season's average price of corn by $0.14 per bushel. In contrast, the increase in shipping costs, when averaged over 1982-83 grain and soybean production with a 5 percent cargo preference rule in effect, would range from $0.01 to $0.02 per bushel of corn, $0.04 to $0.06 per bushel of wheat, and $0.03 to $0.04 per bushel of soybeans. The increase in shipping costs with a 20 percent cargo preference rule in effect would range from $0.05 to $0.07 per bushel of corn, $0.15 to $0.23 per bushel of wheat, and $0.13 to $0.18 per bushel of soybeans.

Additional shipping and transportation costs associated with cargo preference regulations are likely to be divided unequally between farmers and foreign buyers. However, if all of the increased shipping costs associated with a 5 percent cargo preference requirement were passed on to the farmer in the form of reduced exports and these export reductions came during the 1982-83 crop year, the season's average price would be reduced by $0.08 to $0.13 per bushel for corn, $0.07 to $0.12 per bushel for wheat, and $0.15 to $0.24 per bushel for soybeans. If a 20 percent cargo preference was applied, the season's average price would be reduced by $0.34 to $0.54 per bushel for corn, $0.30 to $0.48 per bushel for wheat, and $0.59 to $0.97 per bushel for soybeans.

Even if a 10 percent tax credit was given to help offset the increase in shipping costs the remining shipping costs (in the form of reduced exports) from a 5 percent cargo preference would reduce the season's average price of corn by $0.07 to $0.12 per bushel, the price of wheat by $0.07 to $0.11 per bushel and the price of soybeans by $0.13 to $0.21 per bushel. A 20 percent cargo preference with a 10 percent tax credit would reduce the season's average price per bushel by $0.29 to $0.48 for corn, $0.27 to $0.43 for wheat and $0.53 to $0.87 for soybeans.

Lower commodity prices would have had a direct and predictable negative impact to grain and soybean producers. For example, since corn production in 1982-83 was about 8.4 billion bushels, the $0.08 to $0.13 per bushel lower price would decrease income to corn

producers by $692 to $1124 million with a 5 percent cargo preference (Table 4). The $0.34 to $0.54 per bushel decrease in corn price with a 20 percent cargo preference would have reduced income to corn producers by $2.8 to $4.5 billion in 1982-83. The wheat crop was 2.8 billion bushels in 1982-83. Thus, the $0.07 to $0.12 per bushel lower wheat price with a 5 percent cargo preference would decrease income to wheat producers by $208 to $339 million. A 20 percent cargo preference would reduce wheat producers' income by $0.83 to $1.4 billion, due to the $0.30 to $0.48 per bushel price reduction for wheat. With 1982-83 soybean production at 2.2 bushels, income to soybean producers would be $330 to $536 million lower because of the $0.15 to $0.24 per bushel lower price, assuming a 5 percent cargo preference. The $0.59 to $0.97 per bushel decrease in soybean price with a 20 percent cargo preference would have reduced income to soybean producers by $1.3 to $2.1 billion in 1982-83. The total reduction in farm income resulting from a 5 percent cargo preference requirement on grain and soybeans ranges from $1.23 to $1.99 billion. A 20 percent cargo preference requirement on grain and soybeans would cause farm income to decrease by $4.92 to $7.995 billion.

Reduced exports and lower farm prices would have a major impact on the cost of government programs. Government farm program costs would have cost U.S. taxpayers in general, millions of dollars annually. As farm prices are further discounted by cargo preference rules, government storages and deficiency payments will increase. The government's cost of applying cargo preference to cash or commercial exports would increase the burden on taxpayers for farm price and income supports.

Based on this economic analysis, cargo preference rules should not be applied to the blended credit program. If the blended interest export program is to be effective, it is essential that the programs be given the opportunity to accomplish its original objective. Applying cargo preference to this program would completely nullify its effect.

An example of the impact of cargo preference, had it been applied to the blended export credit program in fiscal year 1983, illustrates this point. On October 29, 1982, USDA announced the first blended export credit transaction. The contract was with Morocco and extended $140 million in blended credits for 1.1 million metric tons of wheat to be offered for sale by United States exporters. Of the $140 million, $112 million was under GSM-102 credit guarantees and was thus subject to current market interest charges. The remaining $28 million was under GSM-5 direct credit, which is interest free.

While the actual terms of the Morocco transaction are kept confidential by USDA, it is fair to assume -- based on customary practice -- that Morocco will repay the principal debt in three equal payments, and that the applicable market interest rate was the London Inter Bank offer rate at the time plus ½ percent. The interest charges would thus amount to approximately 11 percent or about $24.64 million for the $112 million portion of the debt at the

TABLE 4

EFFECTS OF CARGO PREFERENCE ON FARM INCOME
(NO TAX CREDITS INCLUDED)

COMMODITY/ SCENARIO	REDUCTION IN EXPORTS	DECREASE SEASON'S AVE. PRICE	SEASON'S PRODUCTION	DECREASED INCOME TO PRODUCERS
	(MILL. BU.)	($'s / bu.)	(BILL. BU.)	(MILL. $'s)
5% CARGO PREFERENCE				
CORN / A	35.45	0.08	8359.00	691.54
CORN / B	46.08	0.11	8359.00	899.00
CORN / C	57.60	0.13	8359.00	1123.75
WHEAT / A	23.15	0.07	2812.00	208.36
WHEAT / B	30.10	0.10	2812.00	270.86
WHEAT / C	37.63	0.12	2812.00	338.58
SOYBEANS / A	8.66	0.15	2229.00	330.14
SOYBEANS / B	11.25	0.19	2229.00	429.18
SOYBEANS / C	14.07	0.24	2229.00	536.47
TOTAL SCENARIO A				1,230.03
TOTAL SCENARIO B				1,599.04
TOTAL SCENARIO C				1,998.80
20% CARGO PREFERENCE				
CORN / A	141.79	0.34	8359.00	2766.15
CORN / B	184.33	0.42	8359.00	3595.99
CORN / C	230.41	0.54	8359.00	4494.99
WHEAT / A	92.62	0.38	2812.00	833.43
WHEAT / B	120.41	0.39	2812.00	1083.46
WHEAT / C	150.51	0.48	2812.00	1354.32
SOYBEANS / A	34.63	0.59	2229.00	625.23
SOYBEANS / B	45.02	0.77	2229.00	1716.70
SOYBEANS / C	56.27	0.97	2229.00	2145.88
TOTAL SCENARIO A				4920.12
TOTAL SCENARIO B				6396.15
TOTAL SCENARIO C				7995.19

TABLE 5

EFFECTS OF CARGO PREFERENCE ON FARM INCOME
(TAX CREDITS INCLUDED)

COMMODITY/ SCENARIO	REDUCTION IN EXPORTS	DECREASE SEASON'S AVE. PRICE	SEASON'S PRODUCTION	DECREASED INCOME TO PRODUCERS
	(MILL. BU.)	($'s / bu.)	(BILL. BU.)	(MILL. $'s)
5% CARGO PREFERENCE				
CORN / A	31.90	0.13	8359.00	622.38
CORN / B	41.47	0.10	8359.00	809.10
CORN / C	51.84	0.12	8359.00	1011.37
WHEAT / A	20.84	0.07	2812.00	187.52
WHEAT / B	27.09	0.09	2812.00	243.78
WHEAT / C	33.86	0.11	2812.00	304.72
SOYBEANS / A	7.79	0.13	2229.00	297.12
SOYBEANS / B	10.13	0.17	2229.00	386.26
SOYBEANS / C	12.66	0.21	2229.00	482.82
TOTAL SCENARIO A				1,107.03
TOTAL SCENARIO B				1,439.13
TOTAL SCENARIO C				1,798.92
20% CARGO PREFERENCE				
CORN / A	127.61	0.29	8359.00	2489.53
CORN / B	165.90	0.40	8359.00	3236.39
CORN / C	207.37	0.48	8359.00	4045.49
WHEAT / A	83.36	0.27	2812.00	750.09
WHEAT / B	108.37	0.35	2812.00	975.11
WHEAT / C	135.46	0.43	2812.00	1218.89
SOYBEANS / A	31.17	0.53	2229.00	1188.49
SOYBEANS / B	40.52	0.69	2229.00	1545.03
SOYBEANS / C	50.65	0.87	2229.00	1931.29
TOTAL SCENARIO A				4428.11
TOTAL SCENARIO B				5756.54
TOTAL SCENARIO C				7195.67

end of a three year period. If the $28 million of GSM-5 direct credit would have been charged the same interest rate as the GSM-102 ($112 million), the finance charges would have totaled about $30.8 million. Therefore, the blended credit program saved Morocco $6.16 million in interest charges. This translates into a savings of approximately $5.60 per metric ton when the total purchase of 1.1 million metric tons is considered. Thus, the blended credit program reduced Morocco's effective cost of the wheat by $5.60 per metric ton.

If cargo preference had been applied to the Morocco transaction, half the wheat, or 550,000 metric tons would have had to be shipped on United States flag vessels. United States vessels are older, smaller and much more expensive than foreign flag vessels. The transportation research group of USDA's transportation section compiles average shipping rates based upon published voyage charter data. For the second quarter of 1982 these estimates show that ships leaving the United States gulf for Morocco has an average shipping rate of about $68.68 per metric ton. Foreign flag vessels with the same origin and destination averaged about $22.79 per metric ton. This means that the shipping cost differental between United States flag vessels and foreign flag vessels at the time was about $45.89 per ton.

To ship all the grain on foreign flag vessels would have cost about $25.06 million. To ship half the wheat on United States flag vessels and half on foreign flag vessels would have cost about $50.3 million, or about $25.24 million more. Translating this to a per ton basis, it would have cost Morocco $22.95 per metric ton more if cargo preference had been applied to the sale.

Therefore, even though Morocco obtained a $5.60 per metric ton savings in the interest charges under the blended export program, cargo preference requirements would have increased the cost of the wheat by about $22.95 per ton. Under those circumstances, the effective or landed cost of the wheat to Morocco would have increased by about $17.35 per metric ton.

Given the competitive nature of the world's agricultural and grain industries, increased shipping costs of this magnitude resulting from cargo preference requirements could not have been passed on the Morocco by American exporters. Morocco could easily have purchased its needed agricultural commodities in the world market at competitive prices without paying the increased transportation charges.

This foregoing analysis only deals with the $140 million blended credit transaction with Morocco. However, in fiscal 1983 $1.75 billion was allocated for the blended export credit program. All of the remaining blended export credit program contracts in that year would have experienced a similar economic impact if cargo preference had applid to those sales. As a result, extending cargo preference requirements to the blended export credit program would completely nullify the program and undermine its objectives by increasing the effective or landed cost of agricultural commodities to foreign buyers. Confronted with this increased cost of United States' agricultural commodites, those buyers would simply go elsewhere in the world market for their purchases. This would limit United States agricultural exports and reduce farm commodity prices and farm income -- all in contravention of the clearly articulated national policy underlying USDA'S blended interest export credit program.

If cargo preference is applied to agricultural exports, the two hands of the U.S. government would be operating in opposition to one another. The government would be using one hand to increase and promote agricultural exports through the blended credit program. The proverbial other hand would be setting the stage to substantially reduce agricultural exports with cargo preference. It does not make economic sense to implement such requirements at a time when the United States needs to become more competitive and aggressive in obtaining better foreign market access. One of the greatest risks in applying cargo preference is that after a few years, the United States would find its export markets severely eroded because cargo preference requirements encouraged production in other exporting countries in the world, given price differentials.

ENDNOTES

1 Current issues and debate with respect to cargo preference rules include pending legislation that would require a minimum of 5 percent of foreign trade in bulk cargo in 1985 to be shipped on U.S. built and manned vessels. The percentage would increase each year until a 20 percent minimum is reached on all shipments. Some proposals also include a 10 percent tax credit for increased shipping costs where U.S. flagships are used in place of foreign flagships.

2 Cotton was not included in this analysis. The tonnage of cotton is small relative to the tonnages of grains moving in export trade. Thus, measurement of the economic impact was beyond the scope of this brief paper.

3 Average American and foreign flag vessel shipping rates are compiled and maintained by the transportation research group of USDA'S transportation section from voyage charter rate data published in the weekly newsletters of Maritime Research, Inc. for 1982, the average shipping rate differential between American and foreign flag vessels was $45.84 for all voyages.

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CARGO PREFERENCE AND OTHER MARITIME SUBSIDY PROGRAMS:

A REVIEW OF THEIR APPLICATION AND EFFECTS

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CARGO PREFERENCE AND OTHER MARITIME SUBSIDY PROGRAMS:

A REVIEW OF THEIR APPLICATION AND EFFECTS

MARITIME LEGISLATIVE HISTORY

The United States, like many other countries, has adhered to the view that a sovereign merchant marine is essential to the furtherance of national economic and security interests. Few Americans contest this assumption, but there are differing opinions on what constitutes an appropriate means of achieving the desired objective. The principle of government involvement as a necessary precondition to the continuance of the U.S. merchant marine is broadly accepted, but a consensus does not exist regarding the effectiveness of present government policies and programs. Essentially, the debate revolves around the fashioning of a merchant marine program for the 1980s that is responsive to broad-based economic and well-defined security interests. Just like other government programs, this process inevitably entails a reevaluation of existing programs in light of changing conditions. The purpose of this report is to outline the direction of the current program and, in so doing, point to areas where the costs clearly outweigh gains to all but a very narrowly defined set of commercial interests.

Today's maritime program is built on a foundation of five basic laws. The first act, the Military Transportation Act of 1904, applied to the compulsory use of U.S. flag vessels for transportation of supplies for the armed services. Public Resolution 17 (P.R. 17), passed in 1934, states that whenever U.S. government financing is involved in fostering American exports, cargoes should be carried in U.S. flag vessels, to the extent they are available, at reasonable rates. The Maritime Administration (MARAD) interpreted P.R. 17 to require a minimum of 50 per cent use of American vessels, applicable to shipments financed by the U.S. Export-Import Bank.

The constitution of MARAD is the Merchant Marine Act of 1936 as amended. Title 1 of the act enumerates the criteria for a viable merchant marine which include: (a) a fleet "sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States..." and adequate shipping services to maintain this fleet; (b) a fleet which is "capable of serving as a naval and military auxiliary...;" (c) a fleet "owned and operated under the U.S. flag by citizens of the United States...;" (d) a fleet composed of "the best equipped, safest and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel..."

The Cargo Preference Act (PL 83-664) of 1954 amended the original 1936 law, effectively implementing the language of Title 1 with respect to the establishment of a merchant marine responsible for carrying a substantial

portion of U.S. foreign trade. It did in foreign commerce what the Jones Act of 1920 had already done respecting the exclusive reservation of domestic water-borne cargoes transported within the United States to U.S.-built and U.S.-registered vessels. The preference provision links U.S.-financed cargoes with a 50 per cent tonnage requirement transported in U.S. flag vessels.

> [Sec. 901 (b) (1)]
> Whenever the United States shall procure, contract for, or otherwise obtain for its own account, or shall furnish to or for the account of any foreign nation without provision for reimbursement, any equipment, materials, or commodities, within or without the United States, or shall advance funds or credits or guarantee the convertibility of foreign currencies in connection with the furnishing of such equipment, materials, or commodities, the appropriate agency or agencies shall take such steps as may be necessary and practicable to assure that at least 50 per centum of the gross tonnage of such equipment, materials, or commodities (computed separately for dry bulk carriers, dry cargo liners and tankers) which may be transported on ocean vessels shall be transported on privately owned United States flag commercial vessels, to the extent such vessels are available, at fair and reasonable rates for United States flag commercial vessels, in such manner as will ensure a fair and reasonable participation of United States flag commercial vessels in such cargoes by geographical areas.

In 1970, the provision was further amended to allow for regular monitoring and enforcement of the preference programs under Section 901 (b) (1) by the Secretary of Commerce whose authority has now been transferred to the Secretary of Transportation. In 1973, Section 640 (c) of the Foreign Assistance Act allowed the U.S. Agency for International Development (AID) to make grants to countries for transportation in U.S. bottoms to cover the rate differential between U.S. and foreign flag vessels.

In 1961, the Merchant Marine Act, Section 901 (b) (1) was further amended to require vessels made, repaired, or originally flying another flag to be documented in the United States for three years to qualify for cargo preference programs. In 1981, this provision was modified under Section 615 to allow such vessels to qualify for cargo preference upon the determination of the Secretary of Commerce (Secretary of Transportation) that U.S. government funds were unavailable to provide the construction differential subsidy allowed for under the law.

MARITIME SUBSIDIES

These laws form the basis for both the cargo preference and direct and indirect payment programs for privately owned U.S. flag vessels which constitute the U.S. merchant marine. Aside from the acquisition and maintenance of the National Defense Reserve Fleet (NDFR) which now consists of 317 vessels at the government's disposal, the American merchant marine relies on federal subsidies and reservation of cargoes to compete with foreign flag vessels. To date, the U.S. merchant fleet numbers 859 vessels (578 privately owned and 281 owned by the Federal government) with 34 per cent of the ships built in 1944/45, accounting for 18 per cent of total deadweight (number of tons minus fuel, water, stores and other items for voyage use) capacity. Critics and supporters alike would agree that today's programs act mainly to sustain these arbitrary levels and do not effectively function in the transformation or revitalization of the merchant fleet.

The most significant forms of official monetary assistance which private vessel owners have and in many cases continue to benefit from are the following:

- Construction Differential Subsidy (CDS):
  MARAD administers a construction differential subsidy for purchases of U.S.-built vessels in keeping with one of the principal objectives of the 1936 Merchant Marine Act. The statutory limit is a subsidy rate of 50 per cent of total construction costs which the General Accounting Office (GAO) and Shipbuilders Council of America has reported as inadequate to cover higher U.S. vessel construction costs. Until the Omnibus Budget Reconciliation Act of 1981, U.S. operators could not qualify for the other main government subsidy program--Operational Differential Subsidy (ODS)--unless their vessels were U.S.-documented for three years. Now foreign-built vessels can qualify under exceptional circumstances, thereby offering the potential for substantial reductions in government outlays for CDS payments. To date, MARAD outlays for 1936-81 were $3,332,255,535 1/ with approximately another $500 million under CDS contract awards.

- Related Programs--the Capital Construction (CCF) and Construction Reserve Fund (CRF):
  CCF and CRF are designed to offer incentives for fleet modernization and diversification to cover the acquisition, construction, or reconstruction of vessels, barges, and containers over a fixed period of time. Both programs allow for capital deposits by qualified fund holders based

1/ MARAD '81, U.S. Department of Transportation, p. 61.

on deferral of eligible Federal income taxes. The cost of these programs is not in the form of budget outlays but in terms of deferred tax revenues. As of Fiscal Year 1981, fund holders had deposited $2.4 billion in CCF accounts and withdrawn $2 billion for qualified investments. For the same period, CRF deposits were drawn down from $8.7 to $6.8 million.

Title XI of the 1936 Merchant Marine Act established the Federal Ship Financing Guarantees Program, which offers U.S. government insurance or payment guarantees on construction loans and mortgages. The program has been expanded to cover total debt obligations for such financing with the U.S. government holding a mortgage on the equipment. The 1981 Budget Reconciliation Act established a $9.5 billion ceiling on MARAD's Ship Financing Guarantees with annual limitations of $900 million. This program is income-producing on an annual basis for MARAD derived from premium payments, fees, and interest, but in the event of default, the U.S. government is obligated for the unpaid portion of the loan or mortgage. To date, 11 companies have defaulted since the inception of the program.

- Operating Differential Subsidies (ODS):
  ODS contracts are awarded by MARAD to vessel operators for interim, short-term and, more conventionally, long-term periods written for 20 years. The purpose of the program is to offset the higher costs of the maintenance and operations of U.S. vessels in foreign trade compared with competing non-U.S. flag ships. These ODS contracts are calculated on an operating year basis with quarterly payments to operators. In order to avoid a double operating subsidy, MARAD prorates its payments, subtracting out differentials paid to operators for voyages under cargo preference programs operated by other government agencies. Although not foolproof, MARAD minimizes such duplication by reimbursing for ODS entitlements with a minimum delay of one-quarter of actual expenses incurred by operators. When cargo preference differential payments straddle two quarters, it is still possible for an operator to receive a double payment which is only balanced out the next quarter under the MARAD system.

  ODS is the largest single subsidy program for the U.S. merchant marine and the trend is for mounting allocations under this program, primarily due to inflationary labor costs. Expenditures in 1982 for ODS programs were $350,652 million and are estimated at $406,821 million in 1983 and $429 million, FY 1984, an increase of 18 per cent in a three-year

period. From FY '36 to FY '82, total expenditures under MARAD's ODS were over $6.5 billion, 87 per cent of which was attributable to wage differentials between American and foreign crew costs for the operation of the same or an equivalent vessel in the United States and under a foreign flag. According to MARAD, for example, the wage differential between foreign flag tankers and dry bulk vessels and comparable U.S. carriers in these classes is approximately 1:3 in favor of foreign competition.

Under the U.S.-USSR Maritime Agreement of 1976, U.S. flag vessels transporting commercial cargoes to the Soviet Union qualified for ODS subsidies and partial Soviet differential payments indexed to the standard monthly freight rate (Gulf/Belgium-Holland). The five-year bilateral grain agreement, beginning in October 1976, applied the terms of the Maritime Agreement, reserving a portion of American grain shipments to U.S. flag carriers. Although U.S. flag shipments fell short of target, American vessels have handled a total of 13.5 per cent of all U.S.-origin grain shipments to the USSR between 1976 and 1981. ODS short-term contracts covering these shipments totaled $146.4 million, but no new contracts have been awarded since the grain embargo of 1980. Despite the annual renewal of the grain agreement, U.S. flag vessels have not participated in grain exports from the United States under ODS contracts. According to Soviet officials and private trade sources, the cargo preference formula applied under the Maritime Agreement proved to be an obstacle to the U.S. objective of securing its role as a principal supplier of grain for the USSR.

Since its inception until FY 1981, 22 operators (8 liner and 14 bulk) have held 26 ODS contracts with MARAD covering 165 U.S. flag vessels. 2/ In fact, however, only a few firms received the major share of ODS disbursements. During this period, six privately owned shipping lines accounted for approximately 72 per cent of accrued ODS payments. Moreover, most of the vessels registered under the names of corporate ODS recipients were container ships and liners as opposed to dry bulk cargo vessels which are most efficient for transporting grain cargoes. This discrepancy is significant because of the fact that grain shipments have traditionally accounted for 50-55 per cent of cargo preference (PL 664) tonnage under differential subsidies. This proportion indicates that agricultural commodities under government sponsorship bear a disproportionate share of the cost of PL 664 differential subsidy payments without contributing markedly to improvements in the grain handling capabilities of the U.S.

2/ MARAD '81, p. 14.

fleet. Instead of channeling more funds to the modernization and construction of bulk cargo vessels, MARAD's ODS program has been directed over time to container ship and liner operators.

Several studies have been undertaken regarding these subsidy programs and their relative effectiveness in maintaining a strong, viable merchant marine. Their conclusions point to the necessity for reforms, several of which are now being undertaken in good faith by MARAD. However, as long as these subsidy programs exist, there will be accompanying distortionary economic effects resulting in structural inefficiencies. The ultimate question, then, is what are the trade-offs? Does ODS as it is now run contribute more to the strength of the U.S. merchant marine and, thus, to American commercial and national security interests than it costs the U.S. economy? Similarly, do CDS and related programs achieve their stated purpose at acceptable and equitable costs to those sectors of the economy which must share the burden?

CARGO PREFERENCE AND PL 480 PROCEDURES

The cargo preference laws--The Military Cargo Act, P.R. 17, the Jones Act, and PL 664--must be subject to the same scrutiny. These preference laws apply exclusively to government-sponsored cargoes which cover 17 different Federal departments or agencies and at least 30 different programs (see Table 1). The operating guidelines for each program are similar in that each respective agency has the responsibility of insuring that the 50 per cent U.S. flag provision for liners, tankers, and dry bulk carriers separately is enforced according to the law and under MARAD's supervision. The differential subsidies between the lowest landed costs (LLC) for delivered American cargoes in U.S. flag and foreign flag vessels are the level of payments assumed by these agencies in satisfying the cargo preference requirements. In general, the lower the differential subsidy, the lower the level of expenditure from the responsible agency's budget, which can then be passed on as savings to either the recipient of the government program or the American taxpayer.

Astute management of this program is particularly important for the food assistance programs under PL 480 (Agricultural Trade Development and Assistance Act of 1954, as amended) because of its predominant role for PL 664 shipments and the fact that the savings can be translated into additional food assistance, essential in satisfying immediate foreign consumption requirements. At the same time, American producers may be able to realize an increase in crop prices from any resulting increase in export volumes. In quantitative terms, U.S. agricultural exports under PL 480 represent approximately 5 per cent of total agricultural exports. Price effects would be less than .05 per cent overall from an estimated 6 per cent increase in PL 480 shipments derived from the elimination of freight differentials under cargo preference requirements.

Table 1

GOVERNMENT-SPONSORED CARGOES--CALENDAR YEAR 1980

Public Law 664 Cargoes:

Shipper	U.S. Flag Revenue ($1,000)	Total Metric Tons	U.S. Flag Metric Tons	Percentage U.S. Flag Tonnage
Action	12	12	9	75
Board of International Broadcasting	47	150	128	85
Agency for International Development:				
Loans and Grants	57,272	1,421,225	688,857	48[2]
P.L. 480—Title II	127,797	1,595,504	861,404	54
Department of Agriculture:				
P.L. 480—Title I	119,842	3,544,373	1,452,217	41[2]
Other Agriculture Programs	24	35	29	83
Department of Commerce:				
Industry and Trade Administration	525	987	966	98
Maritime Administration	90	219	219	100
Other Agencies	50	252	98	39[3]
Department of Defense:				
Military Assistance Program				
Foreign Military Sales Credit	21,936	81,689	55,667	68[3]
Corps of Engineers—NEGEV	7,810	30,349	14,187	47[4]
Department of Energy:				
Bonneville Power Administration	216	5,789	2,780	48[2]
Strategic Petroleum Reserve	15,270	2,540,037	210,693	8[5]
Department of Health and Human Services	30	52	34	65
Department of the Interior:				
Bureau of Reclamation	200	2,384	1,019	43[2]
Other Agencies	23	48	24	50
Department of Justice	29	51	47	92
National Aeronautics and Space Administration	145	230	214	93
Tennessee Valley Authority	1,285	6,804	4,690	69
Department of the Treasury:				
Chrysler Corporation	2,549	30,957	12,070	39[2]
Other Agencies	9	8	8	100
Department of Transportation:				
Federal Highway Administration	1,393	11,529	4,877	42[2]
Urban Mass Transportation Administration	404	811	591	73
Other Agencies	36	61	48	79

(continued on p. 8)

Table 1 (continued)

Shipper	U.S. Flag Revenue ($1,000)	Total Metric Tons	U.S. Flag Metric Tons	Percentage U.S. Flag Tonnage
International Communications Agency	1,033	1,827	1,384	76
Department of State:				
Sinai Support Mission	14	27	17	63
Foreign Building Office	309	862	797	92
Other Agencies (does not include AID)	5,442	6,729	4,912	73
Other Agencies	137	140	116	83

Public Resolution 17 Cargoes:

	Total Freight Revenue	U.S. Flag Freight Revenue	Percentage U.S. Flag
Export-Import Bank	$87,039.758	$65,270.107	75

[1] Civilian agencies plus Department of Defense Foreign Military Sales Credit Program Military Assistance Program and U.S. Army Corps of Engineers—NEGEV Other Department of Defense cargoes not included.
[2] These agencies were below the required 50 percent participation due to the nonavailability of U.S.-flag service as provided in P.L. 664.
[3] A substantial number of bill of lading equivalents for MAP and FMS cargoes were not processed from DOD tape reels.
[4] U.S.-flag participation in the NEGEV is calculated on a revenue ton basis in accordance with an agreement between MARAD and DOD and was 54 percent in CY 80.
[5] DOE/SPR had minimal U.S.-flag participation due partly to an oil exchange agreement but primarily because DOE/SPR included shipments of Alaskan North Slope oil covered under the Jones Act as U.S.-flag participation and in foreign source oil acquisitions failed to provide adequate opportunities for U.S. flag participation.

Source: MARAD '81

However, any appreciable transportation savings could have a more significant impact on those individual crops and products which depend to a much greater extent than others on PL 480 programs. In FY 1981, PL 480 accounted for the following shares of total exports in a selection of individual commodities and products:

Grains and Products:	4 per cent
Wheat and Products:	8 per cent
Wheat:	5 per cent
Wheat Flour:	200 per cent
Rice:	10 per cent
Soybean Oil:	33 per cent

MARAD officials and other responsible government officials admit that there is a potential for more efficient handling of cargo preference requirements and, hence, real savings without any changes in the law. Although procedures differ according to the program, the U.S. Department of Agriculture (USDA) and AID assume responsibility for compliance with PL 664 requirements.

Under Title I, the single largest commodity assistance program, the Commodity Credit Corporation (CCC), finances the ocean freight differential between a "fair and reasonable rate" standard for U.S. vessels determined by MARAD and a weighted average foreign vessel rate. CCC reimburses a recipient country for any differential on U.S. flag ships handling cargoes under the country's Title I contract. USDA is obligated to enforce the 50 per cent minimum cargo preference requirement only to the extent that U.S. ships are available. According to PL 664, compliance is also supposed to take into account the geographic distribution within the United States of American vessels participating in these shipments.

Recipient countries have direct administrative responsibility in the awarding of shipment contracts for Title I agreements. Each year the U.S. government makes agreements with eligible foreign countries on the selection of commodities and the amount of the concessional loan sufficient to cover the market price of the commodities sold. The foreign country then applies for a purchase authorization for the specific type and amount of the commodity selected. Upon approval, the country then issues a contract tender for both the cargo and ocean transportation, and submits its accepted bid to USDA for final review. The Office of the General Sales Manager insures compliance with the cargo preference requirement. To minimize its freight differential payment, USDA is supposed to make certain that the participating U.S. vessel is selected on the basis of the LLC bid. Under no circumstances should a contract be awarded which exceeds what MARAD determines as the "fair and reasonable rate" for U.S. vessels. The lowest U.S. bidder should be the vessel quoting the LLC rate, thereby qualifying for a differential subsidy between the latter and an average weighted foreign vessel rate. In practice, however, the system does not work so uniformly. MARAD officials maintain that USDA does not always select on the basis of an LLC rate. The GAO is looking into a case where the USDA did not approve the lowest bid. MARAD officials maintain that USDA officials prefer not to interfere with a recipient country's selection of a shipper or with the country's shipping agent's selection which can result in wasteful expenditures.

Until this audit is completed, there is no way to verify the claims, but the point remains that there is a potential for savings through more efficient management. MARAD, in turn, should disclose the formula it uses to calculate a "fair and reasonable rate." No doubt there are ways to trim fat in this process and to insure that shipments from U.S. coastal ports are distributed among competing U.S. flag vessels in the most cost-effective manner possible. Government regulations for the administration of PL 664 constantly require updating, as long as this provision is in force, to reflect changing market conditions. Otherwise, the costs and longer-term market distortions will continue to increase over time to the detriment of the entire agricultural economy.

Although such savings will be considerable, the costs of the program itself are that much greater as demonstrated by Tables 2 and 3.

Table 2

P.L. 480 Title I/III Programing

	($Mil.)	Average ($Per Ton)	Metric Tons (Grain Equivalent)
FY 1980			
Commodity Sales Registered	864.4	201.5	4,290,000
Ocean Freight Differential Obligated	50.7	(201.5)	(251,600)
FY 1981			
Commodity Sales Registered	793.5	205.5	3,862,000
Ocean Freight Differential Obligated	86.7	(205.5)	(421,900)
FY 1982			
Commodity Sales Registered	719.6	187.2	3,844,000
Ocean Freight Differential Obligated	95.9	(187.2)	(512,300)
FY 1983 Estimate			
Commodity Sales Registered	783.2	190.1	4,121,000
Ocean Freight Differential Obligated	103.2	(190.1)	(542,900)

Based on the average per unit commodity costs for the program, had cargo preference not applied for the Title I/III program, additional sales of 251,600 metric tons would have been made in FY 1980; 421,900 metric tons in FY 1981; 512,300 metric tons in FY 1982; and 542,900 metric tons in FY 1983 based on current price estimates.

Table 3

P.L. 480 Expenditures
($Mil.)

	Title I/III			Title II			Total P.L. 480		
	Commodities	Ocean Freight Differential	Total	Commodities	Ocean Transportation	Total	Commodities	Transportation	Total
1977	723.1	75.5	798.6	362.6	96.9	459.5	1,085.7	172.4	1,258.1
1978	671.1	62.6	733.7	328.2	130.6	458.8	999.3	193.2	1,192.5
1979	754.5	72.5	827.0	397.6	149.2	546.8	1,152.1	221.7	1,373.8
1980	845.8	63.0	908.8	410.5	185.6	596.1	1,256.3	248.6	1,504.9
1981	781.3	65.1	846.4	590.1	256.8	846.9	1,371.4	321.9	1,693.3
1982	712.0	120.1	832.1	321.0	194.3	515.3	1,033.0	314.4	1,347.4

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STRENGTHENING OF AGRICULTURAL INTERESTS AND STREAMLINING OF DECISION-MAKING IN THE AGRICULTURAL TRADE POLICY PROCESS, TO PROVIDE A MORE EQUITABLE AND EXPEDITIOUS RESPONSE TO AGRICULTURAL TRADE NEEDS

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STRENGTHENING OF AGRICULTURAL INTERESTS AND A STREAMLINING OF DECISION-MAKING IN THE AGRICUTURAL TRADE POLICY PROCESS, TO PROVIDE A MORE EQUITABLE AND EXPEDITIOUS RESPONSE TO AGRICULTURAL TRADE NEEDS

POLICY STATEMENT

Agricultural trade is crucial to the financial stability of the U.S farm and food system. Farm exports extenuate our current negative balance of trade in other goods and services and create jobs for the entire economy. The U.S agricultural trade policy process suffers from a lack of uniform objective among the many U.S. government agencies involved in policy formulation. A unified national policy and commitment to agricultural trade is needed, if the goal of maintaining U.S. competitiveness is to be achieved. Accountability for the implementation of such policy should be centralized in one authority to ensure its coordination and direct its execution and to lessen rivalry and competition among the many agencies currently involved in agricultural trade policy matters.

The agricultural trade policy process is ineffectual, cumbersome, and slow. Quite often, the interests of agriculture are outweighed in the interagency and intercommittee process currently designated to coordinate the formulation and execution of national trade policy.

Agricultural interests need strengthened representation in the trade policy process. A greater leadership role should be provided to the U.S. Department of Agriculture in matters of agricultural trade and greater attention given to the designation within government of effective agricultural trade spokesmen.

Long-term agricultural trade policy objectives need to be developed, articulated, and made binding on the interagency process affecting agricultural trade.

RECOMMENDATIONS

The Commission recommends:

1. **A greater leadership role be given to the U.S. Department of Agriculture in matters of agricultural trade.**
2. **Greater attention be given to the designation within government of effective agricultural trade spokesmen.**
3. **Management improvements be undertaken within USDA to enhance its leadership role in trade matters.**
4. **Long term agricultural trade policy objectives be developed and made binding on the interagency and intercommittee process affecting agricultural trade.**

USDA Leadership

The Congress should enact legislation to designate the U.S. Department of Agriculture (USDA) as the lead agency within the federal government in all matters of agricultural trade, agricultural trade policy, and agriculturally-related foreign economic assistance.

The U.S. Trade Representative should continue to have leadership in international trade negotiations. The U.S. Department of Commerce and the International Trade Commission should continue in their current responsibilities and authorities in respect to the regulation of U.S. imports.

It should be the policy of the United States to prohibit the extension of new authority in any matter of agricultural trade or agriculturally-related foreign economic assistance to any agency of government other than the U.S. Department of Agriculture, except as provided for above or upon agreement by the Secretary of Agriculture.

All agencies of government that have programs or take actions that potentially or actually affect agricultural trade, agricultural trade policy, or agriculturally-related foreign economic assistance should be required to report to the Secretary of Agriculture semi-annually on the extent to which such programs or actions affect agricultural trade, agricultural trade policy, or agriculturally-related foreign economic assistance, the extent to which such programs or actions contribute to expanded U.S. agricultural

exports, and the extent to which such programs or actions are consistent with the goals, objectives, and program recommendations contained in the most recent President's Annual Long-Term Agricultural Trade Strategy Report, as elsewhere recommended in this report.

Within 30 days of receiving such reports, the Secretary of Agriculture should be required to report to the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and the Chairmen of the House Foreign Affairs, Ways and Means, and Agriculture Committees his views and recommendations in regard to such information furnished by other agencies.

Agencies administering such programs should be required to coordinate such programs and actions with the Secretary of Agriculture and subject such programs and actions to approval by the Secretary of Agriculture.

Designation of Effective Agricultural Trade Spokesman

Legislation should be enacted to eliminate the position of the Under Secretary for International Affairs and Commodity Programs and establish two new positions of Under Secretary for Trade and International Affairs, and Under Secretary for Commodity Programs.

International affairs responsibilities of the Under Secretary for International Affairs and Commodity Programs should be transferred to the Under Secretary for Trade and International Affairs (hereafter, the Under Secretary for Trade).

The Under Secretary for Trade should serve as a member of the Board of Directors of the Commodity Credit Corporation, and as a member of the Trade Policy Review Group and Development Coordination Committee, Subcommittee on Food Aid.

Additional subcabinet positions within the Department of Agriculture under the leadership of the Under Secretary for Trade should be established as follows:

a. Assistant Secretary for Trade Policy.
b. Assistant Secretary for Market Development.
c. Deputy Under Secretary for the Foreign Agricultural Service.
d. No more than three additional Deputy Assistant Secretaries.

Appropriate attention should be given to ensuring an important leadership role in agricultural trade matters for the President's Special Assistant for Trade and Food Aid Development, as was intended by Congress in the 1985 Farm Act, and consistent with recommendations contained elsewhere in this report.

Management Improvements at USDA

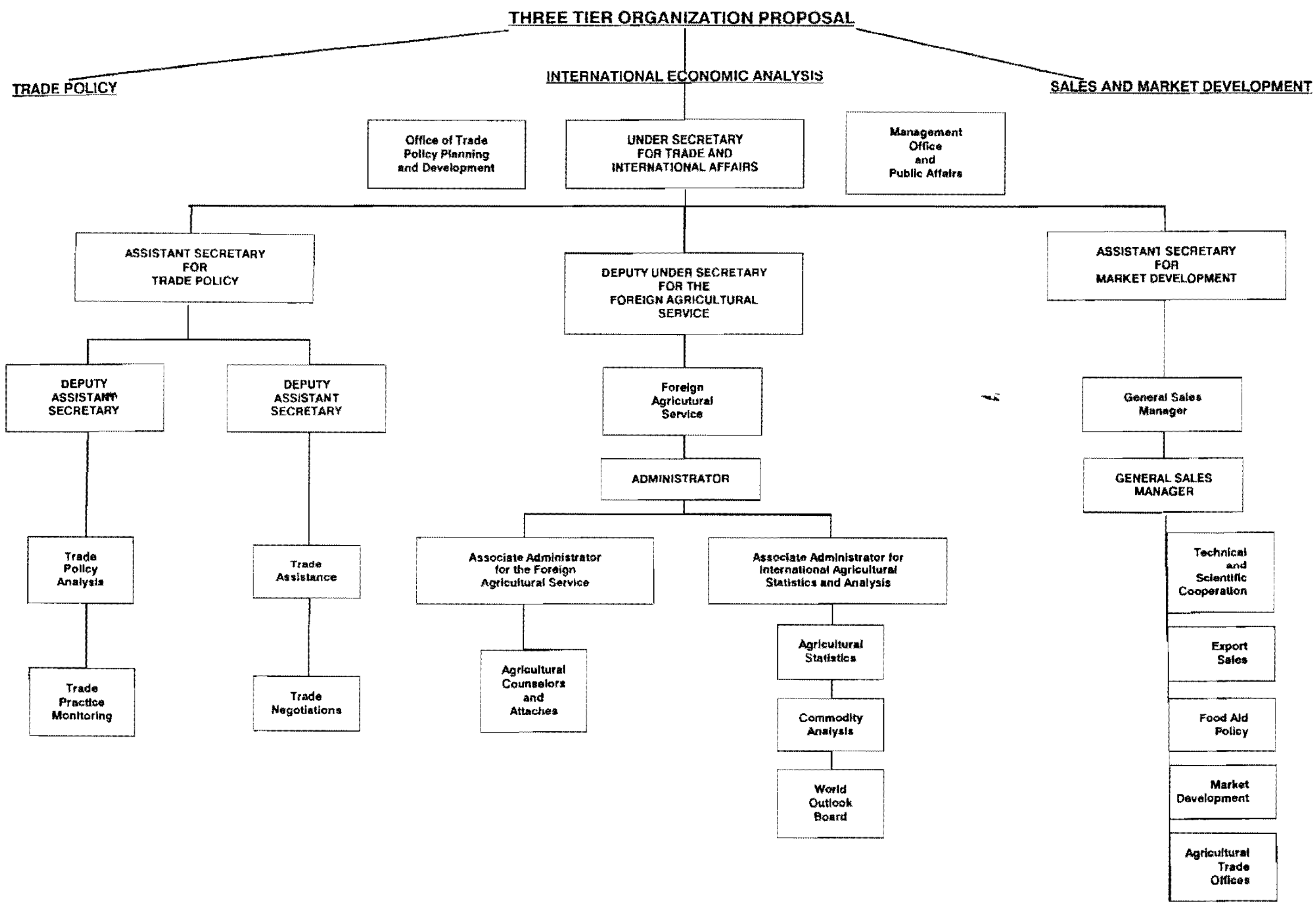
Legislation or administrative action should be taken to reorganize the international programs of the USDA as follows:

1. Transfer to the Foreign Agricultural Service (FAS) the International Economics Division of the Economic Research Service (ERS) and the World Agricultural Outlook Board (WAOB).
2. Establish the General Sales Manager's Office as a separate entity within USDA. Transfer to the General Sales Manager's Office the programs and responsibilities of other agencies as follows:
    a. Foreign Agricultural Service - export sales, market development activities, agricultural trade offices, P.L. 480, Section 416, and food aid programs.
    b. Office of International Cooperation and Development - all programs and activities.
    c. Office of Transportation - International Transportation Services Branch.
    d. Forest Service, Soil Conservation Service, Food Safety and Inspection Service and Animal and Plant Health Inspection Service, Federal Grain Inspection Service, and other agencies of USDA - relevant export sales and market development, or technical assistance programs, as determined by the Secretary.
3. Transfer to the Assistant Secretary for

Trade Policy the following programs of other agencies as follows:

a. Foreign Agricultural Service - trade policy development and analysis, assistance to agriculture in trade policy matters, and cooperation and assistance in trade negotiations with other Executive agencies of government.

4. Establish within the Department of Agriculture a reorganized international programs activity, as follows:



New Authority to USDA

The Secretary of Agriculture and Under Secretary of Agriculture for Trade should be required to undertake the following responsibilities:

1. Ongoing unfair trade practice monitoring:

The Secretary should create within the Department of Agriculture an office whose primary responsibility shall be to continuously monitor the trade-related policies and practices of other nations.

This office should prepare for the Secretary quarterly reports as to the incidence of unfair trade practices, including evidence of the disappearance of past practices or identification of new or expanded unfair policies or practices.

The Secretary should submit such reports within 15 days to the U.S. Trade Representative and the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and House Foreign Affairs, Ways and Means, and Agriculture Committees, together with his views and recommendations for improvements in trade and in technical capabilities for monitoring unfair trade practices and policies.

2. Ongoing Trade Assistance:

The Secretary should create within the Department of Agriculture an office whose primary responsibility shall be to continuously provide assistance to U.S. citizens and organizations damaged by unfair agricultural trade practices and policies, to include assistance in preparing cases for such entities before the U.S. Trade Representative, International Trade Commission, U.S. Department of Commerce, International Court of Trade, or other agency; assistance in providing and updating information regarding the incidence and severity of unfair trade practices and policies, and outreach assistance to U.S. citizens and organizations whose industries may be injured by unfair practices of which they are not aware.

The Secretary shall include in his reports on the incidence of unfair agricultural trade practices and policies an account of assistance provided by the U.S. Department of Agriculture to affected U.S. citizens, organizations, and industries.

3. Permanent and expanded trade negotiations activities:

The Secretary should create within the Department of Agriculture an office whose sole responsibility shall be to provide technical assistance to the Secretary of Agriculture and the U.S. Trade Representatives in all matters pertaining to international negotiations on agricultural trade-related issues.

This office should be required to consult periodically with Agricultural Policy and Technical Advisory Committees jointly administered by the U.S. Department of Agriculture and the U.S. Trade Representative on matters pertaining to agricultural trade.

Long Term Agricultural Trade Objectives

The Secretary of Agriculture should be required to prepare and the President to submit, together with his budget for any fiscal year, an annual <u>Long-Term Agricultural Trade Strategy Report</u>, establishing recommended policy and spending goals for U.S. agricultural trade and exports for one, five, and ten-year periods, beginning on October 1, the beginning of the next fiscal year.

Such a report should include the following:

(i) Actual volume and value agricultural trade goals for every agricultural commodity and value-added product produced in the United States, for the period in question;

(ii) Recommended federal policy and programs to achieve such goals;

(iii) Recommended levels of federal spending on international programs and activities of the U.S. Department of Agriculture to meet volume and value agricultural trade goals;

(iv) Recommended levels of federal spending on programs and activities of agencies other than the U.S. Department of Agriculture to meet volume and value agricultural trade goals;

(v) Recommended long-term strategies for growth in agricultural trade and exports taking into consideration the following:

(A) U.S. domestic competitiveness;

(B) Export enhancement, including credits and export payment-in-kind;

(C) Market development activities;

(D) Foreign agricultural and economic development assistance activities;

(E) Trade negotiations, and;

(F) International monetary and exchange rate policies.

Provisions of the President's Long-Term Agricultural Trade Strategy Report which relate to recommended levels of spending on international activities of the U.S. Department of Agriculture should be treated as the President's Annual Budget submission to the Congress for such programs, and should be submitted in addition to an annual budget request for other programs of the U.S. Department of Agriculture.

The President should include in his annual Long-Term Agricultural Trade Strategy Report recommendations for such changes in legislation governing international programs of the U.S. Department of Agriculture as are required to meet the long-term goals established in the Report.

The President should be required, in his next annual Long-Term Agricultural Trade Strategy Report, to amend his previous report to reflect any legislative changes or changes in Executive priorities or policies that may affect the long term policy contained in his previous report.

The Secretary of Agriculture should be required to establish within the Department of Agriculture an Office of Agricultural Trade Policy Planning and Evaluation, the Director of which shall serve under the direct leadership of the Under Secretary for Trade and International Affairs. The office shall coordinate the preparation of the President's Annual Long-Term Agricultural Trade Strategy Report, together with the Assistant Secretaries for Trade Policy and Market Development, and the Deputy Under Secretary for the Foreign Agricultural Service and monitor for the Secretary the compliance of other agencies with requirements of trade impact statements as elsewhere recommended in this report.

COMMENTARY

The agricultural trade policy process is currently distinguished by the substantial number and diversity of governmental and nongovernmental entities which have a role in the design and implementation of policy. While the Reagan administration has undertaken to streamline and centralize the interagency process which determines overall trade policy within the Executive Branch, this reform has failed to lessen the inroads of other (non-agricultural) agency agendas in the design and execution of agricultural trade policy. An understanding of the current agricultural trade policy is therefore an essential first step in any effort to improve the functioning of the system for the benefit of U.S. agriculture.

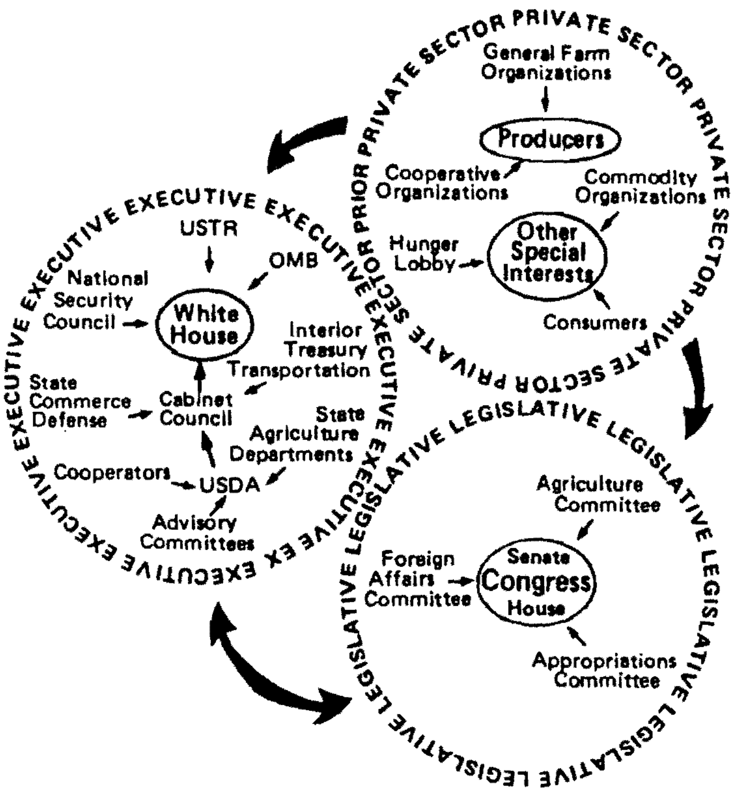
Agricultural trade policy development involves a host of related and unrelated players. These include:

1. Executive Branch Entities
   a. The White House
   b. Inter-Agency Committees
   c. Agencies of the Federal Government
2. Congressional Entities
   a. The Leadership
   b. Authorizing Committees
   c. Funding Committees
3. Commodity and Farm Organizations
   a. Producer Groups
   b. Agribusiness
   c. Other Special Interests

The complex relationship between these various rungs in the trade policy ladder are depicted in the diagram on the following page.

THE EXECUTIVE BRANCH

At the heart of the current agricultural trade policy process is an interagency system of committees designed to coordinate the various interests of Executive Branch agencies empowered to intervene in some fashion and execution of agricultural trade policy. The U.S. Department of Agriculture maintains a prominent role in such matters within the interagency process; however, it does not take precedence over other agencies, even in matters of vital concern to U.S. agriculture, and may, in certain circumstances, possess much less in the way of influence than other agencies, such as the Departments of State and Treasury, and the Office of



Agricultural trade policy — actors, analysts and advocates.

Reprinted from "Agricultural Trade Policy: Who are the Actors:, Neil Meyer, University of Idaho, Wheat Grower Magazine, February, 1984.

Management and Budget.

Interagency Committees

The system for making agricultural trade policy decisions in the Executive branch of government has evolved in the past few years from one of several overlapping Cabinet-level committees (and supporting structures) to a more streamlined structure. While the initial system gave all participants a chance to have their say on policy questions, there was frequent confusion and more than occasional paralysis in the process because of jurisdictional disputes and the sheer amount of time it took to cover every committee.

In the first term of the Reagan Administration, three Cabinet-level councils could be characterized as having some jurisdiction over agricultural trade: the Cabinet Council on Food and Agriculture, whose pro tempore chairman was the Secretary of Agriculture; the Cabinet Council on Commerce and Trade, whose pro tempore chairman was the Secretary of Commerce; and the Trade Policy Committee, chaired by the U.S. Trade Representative.

The Trade Policy Committee (TPC) was fed by lower-level staff groups. At the lowest-ranking level was the Trade Policy Staff Committee (TPSC), staffed by senior-level career experts. The next level was the Trade Policy Review Group (TPRG), staffed by policymaking officials at the assistant secretary level. From there, decisions would move to the cabinet-level TPC.

The Cabinet Council system provided several forums in which agricultural policy concerns could be expressed. But it also meant that anyone who wanted to know the status of an agricultural trade policy issue had to check with all three Cabinet Councils, not to mention working level subcommittees such as those in the TPC sub-structure. Such overlap led to efforts to work outside official channels, and also tended to favor those players who had the strength and access to the White House to cut through the confusion and circumvent the channels.

In an effort to reduce the confusion and overlap, the Secretary of the Treasury formed a Senior Interagency Group (SIG) consisting of himself, the Secretary of State, and other officials concerned with trade policy. But because this group did not have jurisdiction over the Cabinet Councils, it proved to be simply another committee with which already overburdened executives had to deal.

For these reasons, **the Cabinet Council system was scrapped at the start of the second term of the Reagan Administration. It was replaced with a simpler structure: a Domestic Policy Committee (DPC), chaired by the Attorney General, and an Economic Policy Committee (EPC), which supplanted the cabinet councils which affected agricultural trade policy, chaired by the Secretary of the Treasury.**

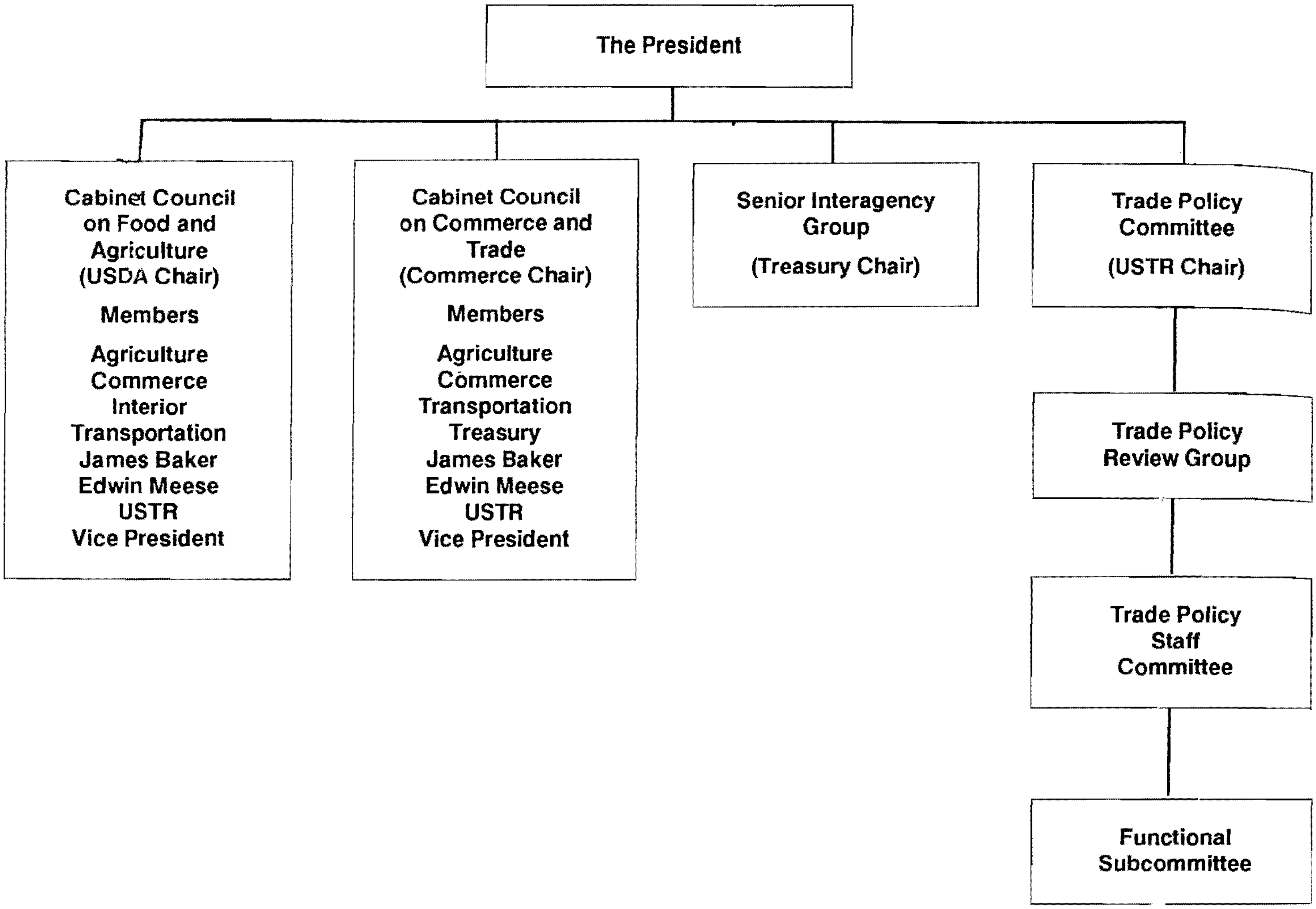
Under this system, an agricultural trade policy question generally starts at the level of the Trade Policy Staff Committee (TPSC), which was retained in the new organization, or an agricultural working group of the TPSC. The TPSC debates the question and, if it is difficult or significant, the question moves up the next level to the Trade Policy Review Group (TPRG). If a decision is not made at this level, the question moves up to the Economic Policy Committee. (The Trade Policy Committee has not been used since establishment of the EPC.)

If a question cannot be decided there – or if the question is considered highly significant – the committee makes recommendations to the President, who makes the final decision on the issue.

Examples of recent trade policy questions that have reached the EPC are EC enlargement, the dispute on citrus and pasta between the United States and the European Community, and the question of whether the Administration should follow recommendations of the U.S. International Trade Commission to restrict footwear imports. In the latter case, the question was decided by President Reagan.

Most officials believe that the EPC system works far better than the Cabinet Council apparatus. Individuals contacted by the Commission were unanimous in their conclusion that the EPC eliminates the duplication and confusion that characterized the Cabinet Council structure. The more pyramid-like structure of the EPC system enables those with debating and advocacy skills to better present their points of view, participants agreed. The system

AGRICULTURAL TRADE POLICY COORDINATING MECHANISMS 1981 THROUGH 1984



AGRICULTURAL TRADE POLICY
COORDINATING MECHANISMS
SINCE 1985

The President

Economic Policy Council (EPC)

Secretary of the Treasury (Chair)
Secretary of Agriculture
Secretary of Defense
Secretary of the Interior
Secretary of State
Director, Office of Management and Budget
Assistant to the President for National Security
United States Trade Representative
Attorney General
Secretary of Commerce
Secretary of Energy
Secretary of Labor
Secretary of Transportation
Chairman, Council of Economic Advisers
Director, U.S. International Development Cooperation Agency

Trade Negotiating Committee (TNC)

United States Trade Representative (Chair)
Secretary of Labor
Secretary of the Treasury
Secretary of Agriculture
Secretary of Commerce
Secretary of State

Trade Policy Review Group (TPRG)

Deputy United States Trade Representative (Chair)

Under Secretary-level members of agencies on the Trade Policy Committee

Trade Policy Staff Committee (TPSC)

Assistant United States Trade Representative (Chair)

Senior civil servant-level members of agencies on the Trade Policy Committee; advisor from the U.S. International Trade Commission

also encourages greater participation by a wider range of officials; the confusion of the Cabinet Council system had led many officials to not attend at least some of the meetings.

But the new system has meant changes in the role of two key players: the Secretary of the Treasury and the U.S. Trade Representative. Because the EPC is chaired by the Treasury Secretary, USTR's role changes from that of "honest broker" at the lower level committees (which it chairs) to that of advocate if a trade policy question moves up to Cabinet level. This, point out some participants, is contrary to the intent of Congress, which intended for USTR to play a mediating, coordinating role when it established the agency in the early 1960s.

While there is little question that the changes in the interagency process implemented by the Reagan administration in 1985 have improved somewhat, the operation of that process, they have failed, nevertheless, to address the question of conflict among agency players which lies at the core of our government's inability to articulate comprehensive, long-term agricultural trade policy. The process appears to be designed to ensure that no single objective or group of interests consistently outweighs all others in the development of overall trade policy. The practical result, however, is a competition of agency and policy agendas in which agriculture invariably does not, and perhaps cannot, win. While this outcome may be of comfort to other interests in our society, it is of tremendous concern to all engaged in the production and marketing of agricultural commodities and products.

Federal Government Agencies

Defenders of the current federal government interagency system sound and act much like defenders of the international GATT system. And the result for American agriculture has been much the same.

Consider, for example, the various functions and roles of the agencies that comprise the interagency process. Their cooperation on agricultural trade matters reflects, perhaps, an old adage applied to systems which do not work – too many chiefs, not enough indians.

The Department of Agriculture

The Department of Agriculture has traditionally assumed a major role in trade policy pertaining to agriculture, particularly in the collection of information necessary to the process of agricultural trade policy decisionmaking.

The principal agency within USDA with responsibilities for international trade is the Foreign Agricultural Service (FAS). It reports on global production and trade situations, provides analysis on trade competition, staffs trade policy negotiations, and administers export financing programs. It also participates when the U.S. sends teams to international trade negotiations.

USDA monitors agricultural world trade supply and demand through more than 100 attaches assigned to 74 embassy posts overseas. These attaches follow local farm conditions and policies, report on local trade policy issues, and carry on market development and trade promotion programs.

Other FAS branches provide information concerning market potential in foreign countries. They compile information that helps policymakers determine the needs of buyers of U.S. agricultural products by analysis of economic situations, technical proficiency in those countries, manpower availability, and other factors that determine increases or decreases in demand for U.S. farm products.

While technically competent, FAS suffers from major drawbacks in the total Federal government trade policy. It is small, by comparison with other agencies involved in trade, both in manpower and in funding. It lacks the resources that would allow heavy involvement in trade policy planning. Finally, it lacks stature within the Federal government complex.

Office of the U.S. Trade Representative

By contrast, **the agricultural trade policy responsibilities of the Office of the U.S. Trade Representative have been increasing recently.** With its origins as the President's special staff representing the United States in multilateral trade negotiations in the 1970s, the Office of the U.S. Trade Representative (USTR) has evolved in responsibility and power, under the

able leadership of Robert Strauss, William Brock, and Clayton Yeutter. Increasingly, it has played a coordinating role in the development and coordination of trade policy, aside from its leadership role in matters of trade negotiations. Its emerging role in the interagency process was signalled by the assignment of the Special Trade Representative as Chairman of the President's Trade Policy Committee in 1981, and by the prominence assumed by the Trade Representative during the Tokyo Round of multilateral negotiations. Its prominence is likely to be further enhanced, as the United States prepares yet another of multilateral trade negotiations.

A relatively small agency by federal government standards, USTR relies on technical support from other agencies and departments in discharging its far flung responsibilities. Trade negotiation remains as the mainstay of its activities. However, it has assumed a strong leadership position in areas of import remedy, export expansion, East-West trade, energy trade, and international investment. To the extent that such trade issues, including agricultural issues, become matters of international negotiation, the role of USTR will be further enhanced.

Office of Management and Budget

As keeper of the nation's purse strings, the role of the Office of Management and Budget (OMB) has also been in ascendancy in recent years, in large part the result of the nation's continuing budget deficit difficulties. OMB's ability to influence on trade policy cuts across all agencies and programs of the federal government. OMB staff have, in the past, provided input to the President's Cabinet Councils and have, in recent years, played a significant role in coordinating or resolving conflicting agency agendas in matters of trade. In addition to its role within the interagency process, OMB has been even more successful as an independent broker in its policy relationship to Congress. With trade policy questions and remedies increasingly viewed in their budgetary context, OMB will remain a powerful influence in matters of agricultural trade.

OMB maintains a full-time economic affairs branch with responsibilities in trade, and monetary and investment policies, in addition to its primary responsibilities in matters of fiscal policy. With its bottleneck on decisions relating to the funding of federal agency programs, it has the capability to significantly influence the direction of agricultural trade policy.

National Security Council

Unknown to most engaged in agriculture and agricultural trade, the National Security Council (NSC) has played an increasing role in the development of agricultural trade policy in recent years. With its special relationship to the President, the NSC has long acted in an advisory role in relation to the coordination of domestic, foreign, and military policy affecting our national security.

NSC plays a prominent role in matters relating to East-West trade. It was an integral player in the 1980 Soviet grain embargo decision, and in discussions relating to the extension of most favored nation (MFN) status to non-market economies. However, in recent years, it has cast its nets further, to include, among other issues, overseas economic development strategies.

NSC is chaired by the President, and involves active participation by the Departments of State and Defense, the Joint Chiefs of Staff, and the Central Intelligence Agency (CIA).

The Department of State

The U.S. Department of State defines its role in the agricultural trade policy process as one of cooperation with other agencies, including USTR and USDA, with the goal to formulate and implement a foreign policy which will advance the international interests of the United States, including our interest in a strong agricultural export sector. The Department views its participation in such matters as vital precisely because they impact on our international political and economic relations.

From its vantage point as chief overseas representative of the United States, and given its ascendancy in matters relating to the maintenance of United States nonmilitary influence overseas, the Department of State is well placed to influence the outcome of agricultural trade policy. The Secretary of State heads the inner sanctum of advisors to the President who assist in the process of determin-

ing the short and long-term objectives of United States relations with other countries.

The Under Secretary and the Assistant Secretary for Economic and Business Affairs are the principal advisors to the Secretary of State on trade matters and they direct the Department of State's participation in the trade policy process and in delegations and negotiations. Within the Department of State the regional bureaus and the country desk officers take a strong interest in controlling the presentation and impact of the U.S. position on foreign countries that may be affected. Arguing the need for consistency and unity in U.S. foreign relations, the Department of State exercises strong influence in Washington and overseas on the timing of approaches and the intensity of U.S. actions in areas of trade policy, trade disputes and U.S. Government export programs. The Department of State also has a key role in coordinating the preparation of the foreign assistance budget for OMB. This process determines the importance of food aid in total foreign assistance and establishes preliminary food aid allocations by country and program. Through the Office of Food Policy and Programs, the Department of State is a major participant in the interagency management of food aid allocations and international consultations on food aid with other donor countries and international organizations.

United States Agency for International Development

The United States Agency for International Development (USAID or AID) is the lead agency for negotiating and administering food aid agreements with foreign governments. Through the conditions attached to these agreements and through development assistance loans and technical assistance agreements, AID has had a considerable influence on food systems, crop development, and agricultural marketing in developing countries. While AID is not a direct force in Washington policy-making on trade matters, the Agency can have a considerable influence on market development in the emerging third-world economies. AID's primary goal is to promote economic development objectives consistent with U.S. foreign policy. It devotes major attention to the social and humanitarian impact of its programs and is not directly responsible for promoting U.S. commercial interests in the process. Through its Office of Food for Peace, AID administers the P.L. 480 programs and other food donations abroad from government stocks under Section 416 authority and maintains close links with the U.S. private and voluntary organizations, including cooperatives, which have a traditional role in distribution of food donations and a growing role in rural development assistance in developing countries.

The Department of Commerce

The Department of Commerce plays a major role in the U.S. agricultural trade policy process, largely in respect to its responsibilities in matters of agricultural import regulation. However, as lead agency in nonagricultural export promotion, and given its position in that regard in the interagency process, Commerce can and does indirectly influence decisions relating to agricultural export promotion. In an era of fiscal austerity, insistence by Commerce on programs designed to protect its constituency can interfere in unrelated efforts on the agricultural front. In addition, the Commerce Department has been at the forefront of advocates recommending establishment of a Department of Trade. Agricultural interests have by and large shied from such a proposal, fearing yet further dilution of agricultural interests within a superagency according Commerce and USTR substantial leadership. While movement toward the establishment of a Department of Trade is, for the moment, not in major evidence, Presidential endorsement of such policy provides clear indications of the potential power and influence of the Commerce Department in matters of agricultural trade.

The Commerce Department's principal arm in international trade matters is the International Trade Administration (ITA), whose responsibilities include export controls, foreign boycott provisions of law, and implementation of countervailing duty and anti-dumping import protection. ITA undertakes a wide range of international economic analysis activities, and participates in U.S. representation to the General Agreement on Tariffs and Trade. Through the Department's Foreign Commercial Service (FCS), export promotion activities are under-

taken abroad. Resources available for such purposes, while less than those probably needed, are nonetheless substantially greater than those provided for similar agricultural export activities undertaken by the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture.

The Department of Defense

While the principal activities of the Department of Defense (DOD) are in regard to the safeguarding of the nation's military security, DOD plays a significant role in trade policy decisions, particularly as they pertain to East-West relations, export controls, and technology transfer. DOD is a member of the Economic Policy Committee (EPC) and, together with State and NSC, has a voice in determining the national security element of overall trade policy. DOD maintains a division for International Economic and Energy Affairs, which conducts research in a wide number of areas, including foreign investment in the United States, national security import protection, and human rights.

Department of the Treasury

The Treasury Department is responsible for the review and analysis of both domestic and international economic issues as well as developments in the financial markets. Department members are part of a forecasting group that develops economic projections and advises the President on various choices among alternative courses of economic policy.

A deputy assistant secretary for trade and investment at the Treasury Department handles most trade and investment issues including GATT negotiations, East-West business, and multinational corporation policy. He is also chief negotiator for the United States in international talks on export credit subsidies.

The Customs Service, a part of the Treasury Department, has the ever-increasing job of collecting duties, taxes, and fees on imported goods. An agency that was established in 1789, Customs enforces tariff and related laws, administers some navigation laws and treaties, and acts as an enforcement agency in cases of smuggling and fraud.

In the 1980s, the U.S. Treasury Department has had an increasingly influential role in formulating policy affecting agricultural trade. As we have seen, the Secretary of the Treasury acted as Chairman of the Senior Interagency Group from 1981 to 1984. These powers were broadened in 1985, when the Treasury Secretary was named head of the Economic Policy Council.

In addition, the Treasury Department has been the lead government agency attempting to deal with the third-world debt crisis. The precarious economic circumstances of these countries – the major growth markets for agricultural trade – have put Treasury in a unique position among federal agencies.

Finally, Treasury has had authority over "hidden" farm programs – tax expenditures. The landmark tax reform legislation of 1986, shepherded through Congress by Secretary James Baker, will doubtless have a significant impact upon the American agricultural sector.

Other Agencies

In addition to the departments of the federal government described above, the activities of a number of other agencies have an impact upon agricultural trade. Consider, for example, the following:

Commodity Futures Trading Commission: regulates trading in futures contracts, one-quarter of which are for agricultural commodities.

Maritime Administration: in conjunction with USDA, operates the cargo preference program.

International Trade Commission: determines whether imports are adversely affecting the U.S. agricultural sector.

Interstate Commerce Commission: regulates railroads and the trucking industry.

Export/Import Bank: has the potential (as yet largely unrealized) of helping expand U.S. agricultural exports.

Finally, although they are certainly not U.S. government agencies, the international lending institutions should be mentioned. U.S. participation in the operations of the International Monetary Fund, the World Bank, and the regional development banks takes place at a high federal level. Because these bodies have an influence

upon the macroeconomic circumstances of the United States' trading partners, their policies are of critical importance to American agriculture.

CONGRESSIONAL ENTITIES

No less than the Executive branch, the trade policy decision making process of the United States Congress involves a tremendous array of different players. Participants may include committees, the leadership, individual members, and/or associated Congressional entities, such as the Congressional Budget Office (CBO) or Office of Technology Assessment (OTA). The resulting mix of policy orientation and differing agendas can be a source of confusion no less taxing than that characteristic of the policy-making mechanism of the Administration.

Committees

Traditionally, the focus of Congressional action on agricultural trade matters has been with the House and Senate Committees on Agriculture. These Committees command a lion's share of jurisdiction in regard to agriculture, and are, in addition, responsible for crafting and guiding to completion the major agricultural bills – the multi-year farm acts – from which most USDA authority in trade matters is traced. **Nevertheless, there have been increasing inroads into the predominance of these Committees in the agricultural trade arena.** While the Senate Agriculture Committee still maintains sole jurisdiction in regard to USDA export programs, including P.L. 480, the House Agriculture Committee, since the mid-1970s, has shared its jurisdiction in respect to such matters with the Committee on Foreign Affairs. Cooperation between the House Agriculture and Foreign Affairs Committees in these matters has generally been good; however, there have been instances of conflict between the agendas of each.

The orientation of the House Agriculture Committee has normally been on expanding exports and reducing government-owned surpluses, with less attention to foreign policy considerations. By contrast, the Foreign Affairs Committee closely weighs the foreign policy outcomes of every agricultural trade issue that may be raised before it. The resulting difference in emphasis can lead to impasse, which, while normally bridged by compromise, is also likely to dilute the policy outcome from an agricultural perspective. Conflicts in policy orientation have also been known to arise between the Senate Agriculture and Foreign Relations Committees.

Jurisdiction in matters of importance to agricultural trade interests is by no means limited to the agricultural and foreign policy committees of the House and Senate. Spending decisions affecting export promotion and other programs – other than, but not excluding CCC direct spending programs – are made by the House and Senate Appropriations Committees, and to lesser degree, by the Budget Committees of each Chamber. Appropriations legislation has been known to include authorization language, even while the Rules of Congress discourage the practice. Budget resolutions establish bounds for spending in future years which, when enforced, can provide serious constraints to the maintenance or expansion of program funding. Agricultural appropriations subcommittees tend to favor agricultural interests. However, the Budget Committees must look to a wider agenda in which agriculture, and agricultural trade, is only one part.

Additional committees with a role in some aspect of the agricultural trade agenda include, in the Senate, the Finance Committee and the Commerce Committee, and in the House, the Ways and Means Committee. Each of these committees plays a role in overseeing the conduct of the Office of the Trade Representative and maintains jurisdiction over the enforcement of U.S. import regulations and laws. The Senate Finance and House Ways and Means Committees have sole jurisdiction in tax matters, which can have a major bearing on the economic climate in the United States and abroad. In addition, the Ways and Means Committee has recently been the lead committee in House efforts to craft an omnibus trade bill, a role that the Finance and Commerce Committees are expected to play in the Senate during the latter part of 1986.

Senate and House Banking Committees, with jurisdiction over U.S. and international banking practices, also can influence the economic and trade environment affecting U.S. agriculture; and in recent years, the House En-

ergy and Commerce Committee has been increasingly active in international trade matters.

The Leadership

At the highest level, decisions affecting legislation to establish, extend, or suspend agricultural trade programs can be taken by the leadership of the House and Senate. In recent years, both the Majority Leader of the Senate and the Majority Whip of the House have played particularly significant roles in the development of agricultural policy.

The principal tools which the Congressional leadership brings to bear in the process are their powers in respect to the scheduling of legislation and their ability to effectively lead or "police" members of their own party through the force of their personal and institutional influence. The leadership devises the legislative schedule. Consequently, the sympathy of the leadership in respect to any legislation is an important element in the legislation's outcome. Influence may also be felt through the application of Congressional rules. The House Committee on Rules, for example, can so order amendments as to their content and admissability for consideration as to dictate, together with the leadership, the substance, if not the outcome, of any debate on a specific legislative matter. Leaders have, in the past, exercised their role with due consideration to the sensibilities of individual members and the need to maintain the highest possible degree of cooperation, as necesary to keep their institutions effectively operating. Nevertheless, they are an important component in the total process.

Individual Members

Beyond their role as members of Committees and/or the leadership, individual members of the House and Senate have the opportunity to influence the outcome of legislation, largely through the offering of amendments. Traditionally, it has been in the Senate where legislation is most shaped by amendments offered from the floor. House rules, more tightly enforced than Senate rules, place emphasis on germaneness and the privilege of committee jurisdiction, particularly that of the Committee on Rules. By contrast, the legislative process of the Senate is remarkably fluid, and allows for greater opportunity for amendments offered by members from the floor, and for parliamentary tactics, such as the filibuster. As a result, legislation may be substantially altered – or even drafted – on the floor of the Senate, well beyond or at the exclusion of consideration of such matters by Committees.

Associated Congressional Entities

While not part of the legislative process as far as voting may be concerned, entities associated with Congress, such as the Congressional Budget Office (CBO), Library of Congress (CRS), and Office of Technology (OTA), play a role in the process through providing relevant information to lawmakers. The role of the CBO has been significantly enhanced in recent years, with the rise in Congressional attention to the budget deficit issue. Estimates regarding the cost of programs, while objectively determined, are an important element in the attractiveness of any legislative proposal. Each associated entity is constrained to operate in a nonpolitical fashion. An emphasis is placed upon objectivity, particularly in agencies such as the Congressional Research Service (CRS).

Nevertheless, information, whether objectively or subjectively derived, can help to focus issues and determine voting behavior. Consequently, these agencies do influence the legislative process, even if in a manner that is crafted to be nonpolitical.

INDUSTRY, COMMODITY AND FARM ORGANIZATIONS, AND REPRESENTATIVES

While essentially a governmental process, agricultural trade policy development involves the participation of a wide array of private sector spokesmen. Such players may assume both official and unofficial input into the policymaking apparatus, as representatives of their organizations' views, as members of federal policy advisory committees and cooperator overseas markets development organizations, or simply as trusted advisors to government officials and the Congress in matters of agricultural trade. Private sector influence and pressure can have an important bearing on policy outcomes. For example, strong agricultural industry advocacy of an export BICEP program in 1984 and

1985, coupled with Congressional alarm at declining export sales, had much to do with the authorization of the program despite strong opposition by the Administration. Ironically, the private sector had less involvement in the initial administration of the program than had been intended by Congress. Nevertheless, without strong industry support it is unlikely that the export BICEP program would have proceeded to the head of Congressional export priorities during consideration of the 1985 Farm Act.

The political role of industry, commodity, and farm organizations is well known to people inside and out of Washington, D.C. Less well known is the role such organizations play as members of federal policy advisory committees and cooperator foreign market development groups. In both of those arenas, politics plays second hand to expert and technical cooperation.

Private Sector Advisory Committees

About 200 representatives of the private sector serve as members of the trade advisory committees for agriculture (see following page). Some serve on the Agricultural Policy Advisory Committee (APAC), and others serve on the Agricultural Technical Advisory Committees (ATACs). Members are jointly appointed by the U.S. Trade Representative and the Secretary of Agriculture. They meet as a committee at least once a year. The APAC members provide policy advice regarding overall agricultural trade issues.

The nine ATACs each address a particular commodity. Commodity coverage was chosen because of the need for private sector advice on commodity trade matters. As required by the Trade Agreements Act of 1979, the committees must include farmers, farm and commodity organizations, processors, traders, and consumers.

Government uses the APAC and ATAC system to keep U.S. agricultural industry leaders apprised of breaking developments affecting agricultural trade and trade policy. The APAC and ATACs offer an opportunity for private sector comment on such policies. Rather than policymaking mechanisms, they are platforms for industry and government comment on matters of current interest.

Cooperator Market Development Organization

Cooperator organizations, by contrast with the APAC and ATACs, are less oriented toward policy and more greatly oriented toward practical programs to expand U.S. agricultural market development opportunities overseas. Such organizations are precluded from any political role, as a feature of their contract of agreement with the federal government. Nevertheless, they can play a significant role in assisting the trade policy process, since they supply a ready source of technical knowledge and abilities that backstop the total expertise in market development matters lodged in the Foreign Agricultural Service (FAS).

FAS has established a partnership with many private sector market development groups (see attached). Today, there are about 60 of these nonprofit organizations that work directly with FAS on a continuing basis to conduct overseas marketing activities. Many of the leaders of these organizations take a direct interest in the formulation of agricultural trade policies.

Since the start of the cooperator program in 1955, FAS and the cooperators have played an important role in increasing agricultural exports. They work to expand trade in more than 80 countries and deal with about 1,600 foreign firms.

The market development cooperator program has shown two great advantages. First, it permits government and private industry to pool their expertise and funds to make their marketing efforts more efficient. Second, the FAS program allows all segments of U.S. agriculture a chance to build export markets. This is very important to those cooperatives that represent a relatively small volume of export commodities.

In 1983, FAS funded nearly a third of the $72.5 million in program expenditures for foreign market development. The remainder was provided by private domestic and foreign organizations whose contributions in this joint effort have, for the last nine years, exceeded those of the government by a 2-1 ratio.

COMMISSION PERSPECTIVES

Commission Perspectives

The wide diversity of government and

nongovernment entities engaged in some fashion in the agricultural trade policy process dilutes, the Commission believes, our nation's current ability to elaborate and execute a consistent and appropriate national agricultural trade policy.

Indeed, the term "process" is perhaps a misnomer when it is used to depict the series of actions that result in the initiation, development, and execution of agricultural trade policy. It implies a predictable, almost mechanical, sequence of activities. There are, to be sure, certain processes at work in the design and implementation of trade policy. Nevertheless, **the overall process is subject to substantial variability. It is not predictable. It varies with the prevailing political and interagency climate, and is subject to a diverse field of special interests.**

Evidence of the basic unpredictability of the current process is contained in the attached report, "U.S. Agricultural Decision Making: An Historical Analysis." The report traces the evolution of three recent major agricultural policy decisions – the EC strategy paper prepared by USDA in 1981, the Blended Credit program implemented in 1982, and the 1985 Export Enhancement program. In each of the above instances, the origination of policy followed different routes. In each, the Administration, Congress, and the private sector played vastly different roles. The report seems to reinforce the view that a single, predictable, and identifiable process is currently lacking in matters of agricultural trade policy.

A further observation contained in the attached report bears comment. It is argued that people – rather than structures of decisionmaking – are the ultimate factors determining the success or failure of public policy. Effective people are likely to fashion effective policy, both within and outside the bounds of structures designed to coordinate their input. By extension, even well organized systems of decisionmaking may break down, if the people assigned to participate in the process are ineffectual or incompetent.

The Commission believes this observation to be true. Nevertheless, it also believes that insufficient attention to the maintenance of appropriate and effective systems of decisionmaking can frustrate the contributions of even the most talented players. Consequently, in its recommendations, the Commission accords substantial weight to improvements in the trade policy process, including reorganization of the international trade functions of the U.S. Department of Agriculture. **Talented people are a very necessary component of agricultural trade policymaking. Yet talent, much like the process as described earlier, is also unpredictable. The backstop to individual effort by both outstanding and less competent people is organization. The Commission believes that it is in this area where greatest improvement can be made.**

In respect to this latter issue, the Commission endorses a reorganization of trade and trade policy activities of the Department of Agriculture. If agriculture is to play an appropriate role in the affairs of the nation, its position within the total process of agricultural trade policy formulation needs strengthening, with appropriate attention to a more centralized system of decisionmaking and more expeditious response to agricultural trade needs. This is unlikely to happen through reform of the interagency and intercommittee process currently designated to coordinate the formulation and execution of national trade policy.

The Department of State will always seek primacy for foreign policy objectives of the United States government. The Office of Management and Budget will seek to limit cost. Other agencies will seek to protect their interests.

Improvement of the current situation is also unlikely to occur through changes in the organization of Congress in respect to such issues. Entrenchment of Congressional jurisdiction precludes this. While, from time to time, proposals to establish a special committee on trade have emerged in the Congress, they have never enjoyed widespread support.

Given such obstacles, improvement of the current agricultural trade policy process becomes difficult. **It appears that the only practical solution to such problems is to assign the U.S. Department of Agriculture greater authority in this area, thereby improving its ability to compete effectively with other agencies in the highest councils of government.** This

can only be done by upgrading the USDA role in the agricultural trade policy process. The Commission recommendations provide for a streamlining of the current process through a balancing of new authority and a reorganization of existing resources.

Improving the Agricultural Trade Policy Process

The conflicting priorities of the various agencies currently empowered to intervene in agricultural trade dilutes the effectiveness of any representation of agricultural interests.

To counter this, **the Congress should clearly and unequivocally designate the Department of Agriculture to be the lead agency in agricultural trade matters.**

The U.S. Trade Representative should continue in his leadership capacity in respect to trade negotiations. The Department of Commerce and International Trade Commission (ITC) could continue in their current responsibilities in regard to the regulation of agricultural imports. In all other agricultural trade matters, however, it is fitting that USDA be recognized as lead agency.

Designation of clear cut responsibility is a necessary, but not sufficient, condition for improving USDA effectiveness in trade matters. **In addition, appropriate steps should be taken to provide an institutional basis for consigning other agency compliance with this basic principle through the establishment of an effective system of checks and balances in the interagency process. The Commission believes that trade impact statements provide an opportunity to achieve this.**

If it is appropriate to cede to the Department of Agriculture overall leadership in agricultural trade matters, it is equally fitting that other agencies face some accountability for actions that tend to infringe upon this principle. **Other agencies of government should be required to report the impact on agricultural trade of relevant programs and policies they adminster. USDA should be required to assess such actions and report to Congress its views and recommendations.**

Improving USDA's Trade Policy Apparatus

Leadership is impossible to exercise without the appropriate tools and resources to do the job. **Substantial upgrading of the trade policy apparatus within USDA is an absolute minimum requirement in any effort to improve agriculture's effectiveness in the interagency process.**

Much rhetoric has been expended in recent years on the issue of the importance of trade and exports for U.S. agriculture. Significant attention has been paid to providing resources, in the form of commodities and credits, to enhance U.S. competitiveness. Little or no attention has been paid to the subject of upgrading the trade policy apparatus within USDA.

In competition with the legions of manpower other agencies can devote to trade matters, USDA currently fields a single, and largely unrecognized agency – the Foreign Agricultural Service (FAS). Leadership over this agency is provided by the Under Secretary for International Affairs and Commodity Programs, who must divide his attention between international trade issues and considerably more politically pressing duties in respect to the maintenance and operation of domestic price support programs. **The Commission believes that consideration should be given to a division of labor that would result in the creation of a new position of Under Secretary of Agriculture for Trade and International Affairs, with responsibility for domestic price support programs reassigned to an Under Secretary for Commodity Programs.**

The Commission recognizes arguments against such a division of responsibilities. Nevertheless, it questions the extent to which any occupant of the current position can effectively discharge responsibilities in trade matters, given his corollary responsibilities in other, equally pressing matters. Beyond that, creation of a separate position of Under Secretary for Trade and International Affairs would signal a strengthened effort within USDA to address trade policy concerns. These are matters that call for concerted, increased and unified activity, particularly in the context of multilateral negotiations on trade. The creation of a new position of Under

Secretary for Trade and International Affairs would be in keeping with an expanded trade responsibility for the Department of Agriculture as is recommended herein.

In a similar vein, other international programs activities of the Department of Agriculture deserve upgrading and reorganization. Similar and often duplicative activities of a variety of USDA agencies, including FAS, the Office of International Cooperation and Development, the Economic Research Service, Office of Transportation, and others, should be amalgamated and reorganized within a single structure that emphasizes three basic purposes:

1. trade policy;
2. international economic analysis; and
3. sales and market development.

New responsibilities should be required of the Secretary of Agriculture as follows:

Ongoing Unfair Trade Practice Monitoring

The Secretary should create within the Department of Agriculture an office whose primary responsibility shall be to continuously monitor the trade-related policies and practices of other nations. This office should prepare for the Secretary quarterly reports as to the incidence of unfair trade practices, including evidence of the disapperance of past practices or identification of new or expanded unfair policies or practices. The Secretary should submit such reports within 15 days to the U.S. Trade Representative and the Chairmen of the Senate Foreign Relations, Finance, and Agriculture Committees and House Foreign Affairs, Ways and Means, and Agriculture Committees, together with his views and recommendations for improvements in trade and technical capabilities for monitoring unfair trade practices and policies.

Ongoing Trade Assistance

The Secretary should create within the Department of Agriculture an office whose primary responsibility shall be to continuously provide assistance to U.S. citizens and organizations damaged by unfair agricultural trade practices and policies, to include

1. assistance in preparing cases for such entities before the U.S. Trade Representative, International Trade Commission, U.S. Department of Commerce, International Court of Trade, or other agency;
2. assistance in providing and updating information regarding the incidence and severity of unfair trade practices and policies; and
3. outreach assistance to U.S. citizens and organizations whose industries may be damaged unknown to them.

The Secretary should include in his reports on the incidence of unfair agricultural trade practices and policies an account of assistance provided by the U.S. Department of Agriculture to affected U.S. citizens, organizations, and industries.

Permanent and Expanded Trade Negotiations Activities

The Secretary should create within the Department of Agriculture an office whose sole responsibility shall be to provide technical assistance to the Secretary of Agriculture and the U.S. Trade Representative in all matters pertaining to international negotiations on agricultural trade-related issues.

This office should be required to consult periodically with Agricultural Policy and Technical Advisory Committees jointly administered by the U.S. Department of Agriculture and the U.S. Trade Representative on matters pertaining to agricultural trade. The specific nature of the Commission's current recommendations are intended only to point the way towards improving the management of USDA's international program activities. The Commission bears no specific allegiance to any single proposed administrative change, so long as the goal of upgrading and reorganizing USDA activity in this area is achieved.

Long-Term Agricultural Trade Planning and Evaluation

Leadership demands recognition. It demands the resources and tools to carry out a mission. Finally, it demands a mission itself.

Agricultural trade policy decisionmaking is currently a process of fits and starts. Planning is ad hoc, with emphasis on achievement

of short-term rather than long-term objectives. Short-sightedness leads to a misallocation of resources and an unevenness of fit between a variety of programs and activities, which, if better coordinated, could promise much greater benefits to U.S. agriculture. The Commission believes that USDA should assume much greater responsibility for the development of long-range agricultural trade policy strategy.

The USDA currently possesses little in the way of a long-term trade planning process. To remedy this situation, the Commission recommends that the Secretary of Agriculture be required to prepare and the President to submit, together with his Budget for any fiscal year, an annual Long-Term Agricultural Trade Strategy Report, establishing recommended policy and spending goals for U.S. agricultural trade and exports for one-, five-, and ten-year periods.

Such a report should include the following:

1. Actual volume and value agricultural trade goals for every agricultural commodity and value-added product produced in the United States, for the period in question;
2. Recommended federal policy and programs to achieve such goals;
3. Recommended levels of federal spending on international programs and activities of the U.S. Department of Agriculture to meet volume and value agricultural trade goals;
4. Recommended levels of federal spending on programs and activities of agencies other than the U.S. Department of Agriculture to meet volume and value agricultural trade goals;
5. Recommended long-term strategies for growth in agricultural trade and exports taking into consideration the following:
    a. U.S. domestic competitiveness;
    b. Export enhancement, including credits and export payment in kind;
    c. Market development activities;
    d. Foreign agricultural and economic development assistance activities;
    e. Trade negotiations;
    f. International monetary and exchange rate policies.

The President should include in his annual Long-Term Agricultural Trade Strategy Report recommendations for such changes in legislation governing international programs of the U.S. Department of Agriculture as are required to meet the long- term goals established in the Report.

The requirement that the President, rather than the Secretary, submit the long-term strategy report has distinct advantages. It provides an assurance that a comprehensive package of agricultural trade issues and programs will be considered and agreed upon annually at the highest level of decisionmaking. Bearing the seal of the President, such programs will have greater enforceability, and will be more binding on other agencies.

There are similar advantages to requiring the report to be submitted together with the President's Budget. Congress would be better placed to determine whether or not the resources requested by the Department are sufficient to meet the long-term objectives contained in the report. In addition, the long-term orientation of policy planning would be more likely to lock-in needed resources for programs which might otherwise be spent elsewhere in the absence of a long-term strategy.

To coordinate the development of such long-term plans, the Commission recommends the establishment within USDA of an Office of Trade Policy Planning and Evaluation.

CONCLUSIONS

Opponents of the Commission's current recommendations say that the activities recommended are already underway – that the job is being done. They say that the current system, while imperfect, cannot be substantially improved upon, indeed, that it is working as intended. The Commission disagrees. The system can and should be improved. **Is the current system adequate? USDA presently estimates the value of our agricultural exports in 1986 to be $27.5 billion, $17.6 billion below the 1981 total of $45.1 billion.** We know that the governmental trade policy process is not solely

to blame for this disastrous decline. Macroeconomic factors figure prominently. Nevertheless, **while we may be unable to alter quickly the serious macroeconomic problems we face, we can at least alter the processes of our government that do contribute to the overall difficulties we face in world markets. We can do that much.**

The Commission believes that we *must* do that much. A proposal to reorganize the Department of Agriculture along lines suggested by the Commission in this report is currently contained in HR 4800, Omnibus trade legislation that has been approved by the House of Representatives. The Commission urges further consideration of its proposals by the Senate and the Administration.

Office of the United States Trade Representative

ADVISORY COMMITTEE SYSTEM

ADVISORY COMMITTEE FOR TRADE NEGOTIATIONS (ACTN)

INDUSTRY POLICY ADVISORY COMMITTEE (IPAC)

AGRICULTURAL POLICY ADVISORY COMMITTEE (APAC)

LABOR ADVISORY COMMITTEE FOR TRADE NEGOTIATIONS AND TRADE POLICY (LAC)

DEFENSE POLICY ADVISORY COMMITTEE FOR TRADE (DPACT)

SERVICES POLICY ADVISORY COMMITTEE (SPAC)

INVESTMENT POLICY ADVISORY COMMITTEE (INPAC)

INTERGOVERNMENTAL POLICY ADVISORY COMMITTEE (IGPAC)

COMMODITY POLICY ADVISORY COMMITTEE (CPAC)

INDUSTRY SECTOR ADVISORY COMMITTEES (ISACs)

1 Aerospace Equipment
2 Capital Goods
3 Chemical & Allied Products
4 Consumer Goods
5 Electronics & Instrumentation
6 Energy
7 Ferrous Ores & Metals
8 Footwear, Leather & Leather Products
9 Industrial Construction Materials & Supplies
10 Lumber & Wood Products
11 Non-Ferrous Ores & Metals
12 Paper & Paper Products
13 Services
14 Small & Minority Business
15 Textiles & Apparels
16 Transportation, Construction & Agricultural Equipment
17 Wholesaling & Retailing

INDUSTRY FUNCTIONAL ADVISORY COMMITTEES (IFCACs)

1 Customs
2 Standards

ISAC CHAIRMAN'S COMMITTEE

AGRICULTURAL TECHNICAL ADVISORY COMMITTEES (ATACs)

1 Cotton
2 Dairy
3 Fruits & Vegetables
4. Grain & Feed
5. Livestock & Livestock Products
6. Oilseed & Oilseed Products
7. Poultry & Eggs
8 Tobacco
9. Sweeteners & Tropical Products

LABOR SECTOR SUBCOMMITTEES

1 Transportation Equipment
2 Lumber, Wood, Paper, Stone, Clay & Glass Products
3 Electronic Equipment Supplies & Non-Electric Machinery
4 Services
5 Food, Agriculture, Chemical, Plastic & Rubber Products
8 Textile, Mfg., Apparel, Leather Products & Misc Industries

LABOR FUNCTIONAL SUBCOMMITTEES

1 Government Procurement
2 Standards
3 Unfair Trade Practices

LABOR STEERING SUBCOMMITTEE

FAS EXPENDITURES AND
U.S. AND THIRD PARTY COOPERATOR CONTRIBUTIONS
FISCAL YEAR 1983
($1,000)

Commodity and Cooperator	FY 1983: FAS Expenditures	Cooperator Contributions: Cash	Cooperator Contributions: Goods & Services	Cooperator Contributions: Total	Foreign Third Party
COTTON					
Cotton Council International	1,365	2,110	185	2,295	3,033
International Institute for Cotton	2,328	-0-	-0-	-0-	2,233
TOTAL COTTON	3,693	2,110	185	2,295	5,266
DAIRY & POULTRY					
Poultry & Egg Institute of America	862	167	142	309	637
Dairy Society Int'l.	-0-	-0-	-0-	-0-	-0-
TOTAL DAIRY & POULTRY	862	167	142	309	637
OILSEEDS & PRODUCTS					
American Soybean Association	3,272	4,632	288	4,920	4,486
National Peanut Council	622	177	20	197	2,125
North Dakota Sunflower Council	90	35	51	136	107
National Cottonseed Products Assn.	33	24	1	25	85
TOTAL OILSEEDS & PRODUCTS	4,017	4,918	360	5,278	6,803
FRUITS & VEGETABLES					
National Potato Promotion Board	35	120	80	200	-0-
California Raisin Advisory Board	357	1,184	117	1,301	3,294
Florida Department of Citrus	278	1,099	-0-	1,099	580
Northwest Horticultural Council	304	253	64	317	-0-
California Cling Peach Advisory Board	373	637	25	662	483
California Avocado Commission	187	158	-0-	158	60
Papaya Administrative Committee	31	39	71	110	-0-
North American Blueberry Council	1	-0-	-0-	-0-	-0-
California Table Grape Commission	26	72	-0-	72	-0-
Florida Nurserymen & Growers Assn., Inc.	-0-	-0-	103	103	-0-
Western Growers Assn.	13	8	13	21	-0-
EIP's 1/	1,722	4,041	-0-	4,041	3,605
TOTAL FRUITS AND VEGETABLES	3,327	7,611	473	8,084	8,022
GRAIN & FEED					
U.S. Wheat Associates, Inc.	3,857	2,590	1,706	4,296	6,986
Millers National Federation	-0-	2/	68	68	-0-
National Dry Bean Council	33	52	26	78	27
Protein Grain Products International	42	97	25	122	-0-
Rice Council for Market Development	1,257	590	223	813	3,378
USA Dry Pea and Lentil Council, Inc.	124	147	102	249	29
U.S. Feed Grains Council	2,424	2,081	90	2,171	2,898
National Hay Association, Inc.	12	25	44	69	-0-
The Popcorn Institute	47	38	9	47	-0-
TOTAL GRAIN & FEED	7,796	5,620	2,293	7,913	13,318
LIVESTOCK & LIVESTOCK PRODUCTS					
National Renderers Association	842	514	165	679	342
Santa Gertrudis Breeders International	3/	-0-	-0-	-0-	-0-
American Brahman Breeders Association	3/	-0-	-0-	-0-	-0-
American Hereford Association	3/	-0-	-0-	-0-	-0-
American Polled Hereford Association	3/	-0-	-0-	-0-	-0-
American Angus Association	3/	-0-	-0-	-0-	-0-
Tanners Council of America	91	224	-0-	224	-0-
International Brangus Breeders Assn.	3/	-0-	-0-	-0-	-0-
Mohair Council of America	5	9	10	19	-0-
American International Charolais Assn.	3/	-0-	-0-	-0-	-0-
Holstein-Friesian Association of America	157	400	8	408	74
EMBA Mink Breeders Association	215	835	-0-	835	-0-
American Quarter Horse Association	15	48	17	65	-0-
Brown Swiss Cattle Breeders Association	13	10	16	26	-0-
National Association of Animal Breeders	21	85	34	119	-0-
U.S. Meat Export Federation	897	566	147	713	871
National Association of Swine Records	4	5	29	34	-0-
Beefmaster Breeders Universal	3/	-0-	-0-	-0-	-0-
Appalossa Horse Club, Inc.	25	46	21	67	-0-
U.S. Beef Breed Council 4/	29	80	99	179	-0-
Catfish	13	5	-0-	5	-0-
TOTAL LIVESTOCK & LIVESTOCK PRODUCTS	2,337	2,827	546	3,373	1,287

FAS EXPENDITURES AND
U.S. AND THIRD PARTY COOPERATOR CONTRIBUTIONS
FISCAL YEAR 1983 -- CONTINUED
($1,000)

Commodity and Cooperator	FY 1983 FAS Expenditures	Cooperator Contributions Cash	Cooperator Contributions Goods & Services	Cooperator Contributions Total	Foreign Third Party
TOBACCO & SEEDS					
Tobacco Associates	61	234	244	478	-0-
American Seed Trade Association	63	136	112	248	-0-
TOTAL TOBACCO & SEEDS	124	370	356	726	-0-
STATE GROUPS					
EUSAFEC	69	17	123	140	-0-
MIATCO	77	93	118	211	-0-
SUSTA	84	58	208	266	-0-
WUSATA	75	92	146	238	-0-
NASDA	400	-0-	-0-	-0-	-0-
TOTAL STATE GROUPS	705	260	595	855	-0-
FOREST PRODUCTS					
National Forest Products Assn.	512	609	630	1,239	310
TOTAL FOREST PRODUCTS	512	609	630	1,239	310
TOTAL COOPERATOR PROJECTS	23,373	24,492	5,580	30,072	35,643
TOTAL FAS PROJECTS	869	75	-0-	75	-0-
GRAND TOTAL COOPERATOR AND FAS PROJECTS	24,242	24,567	5,580	30,147	35,643
Agricultural Trade Offices	2,841	-0-	-0-	-0-	-0-

1/ EIP's contributions are recorded in year promotion occurred.
FAS expenses are recorded in fiscal year reimbursed.
2/ Less than $500.
3/ Consolidated to U.S. Beef Breed Council in FY 1983.

CMP/EPD/PDB
Revised 11/13/84 (1218P)

U.S. AGRICULTURAL TRADE DECISION-MAKING:
A HISTORICAL ANALYSIS

A Report Prepared For

the National Commission for Agricultural Trade

and

Export Policy

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INTRODUCTION

U.S. agricultural exports, in a decline since the beginning of the decade, will erode further in value in 1986. Projections made in February, 1986, estimated overseas sales of U.S. farm products in the 1985-86 fiscal year (October-September) at $28 billion -- the first year in eight that exports have dropped below $30 billion and the fifth consecutive decline.

Analysts and policymakers attribute these declines to three major factors: a U.S. dollar that is overvalued in relation to other currencies, uncompetitive U.S. commodity prices, and unfair trade practices by other countries. Other factors, such as world recession and third world debt, also are cited.

This year, two of those three impediments are easing; the dollar's value has dropped substantially since its record high of a year ago, and the U.S. has cut its price supports for basic commodities. Despite alleviation of these impediments, however, exports show no sign of turning around in the near future; most economists have agreed that there would be a substantial lag time before export volume and revenue could return to earlier levels.

The third factor, unfair trade practices, may take even longer for a government to deal with -- and essential to success in these dealings is an articulated, coordinated trade policy.

Given the limited success of the United States in combatting trade practices it considers unfair, it is reasonable to ask whether the U.S. has the policy framework necessary to pursue its stated goal of expanding agricultural trade. The answer is important for agricultural interests because understanding the process under which past decisions have been made can enable agricultural interests to be more effective in future trade policy dealings. The enlargement of the European Economic Community and the upcoming round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) underscore this importance. Unless agricultural interests understand how their concerns are factored into trade policy decisions, they will not be able to have maximum impact on future trade policy debates.

This paper will focus on the agricultural trade policy apparatus of the executive branch, how it is supposed to work, and its relationship to Congress and the interest groups representing the U.S. agricultural system.

Then it will apply that general understanding to three policy decisions: decisions in 1981 about how to deal with the EEC's Common Agricultural Policy (CAP), the decision to implement the Blended Credit Program in 1982, and the decision to implement the Export Enhancement Program (EEP), sometimes referred to as "Export PIK" (for payment-in-kind) in 1985.

The paper will discuss whether the process works as it was intended and whether people are more important than the

process when it comes to making agricultural trade policy decisions. Throughout, it will describe different ways that agricultural trade policy issues are initiated, how decisions are reached in our government, and the principal ways that such decisions are brought to completion.

THE AGRICULTURAL TRADE POLICY PROCESS

Agricultural trade policy questions arise in nearly every instance from concerns of private sector entitites -- farmers and ranchers, individual companies involved in agricultural trade, trade associations -- before government becomes involved.

The specific issue may be develop from the inability of a commodity group or specific exporter to obtain what it believes is fair access to another country's market. It may result from perceived unfair competition from a third country. Or it may evolve from a perception of unfair competition from imported agricultural products into the U.S.

The system for making agricultural trade policy decisions in the executive branch of government has evolved in the past few years from one of several overlapping Cabinet-level committees (and supporting structures) to a more streamlined structure of one policy committee system. While the initial system gave all participants a chance to have their say on policy questions, there was frequent confusion and more than occasional paralysis in the process

because of jurisdictional disputes and the sheer amount of time it took to cover every committee.

In the first term of the Reagan Administration, three Cabinet-level councils could be characterized as having some jurisdiction over agricultural trade: the Cabinet Council on Food and Agriculture, whose pro tempore chairman was the Secretary of Agriculture; the Cabinet Council on Commerce and Trade, whose pro tempore chairman was the Secretary of Commerce; and the Trade Policy Committee, chaired by the U.S. Trade Representative.

The Trade Policy Committee (TPC) was fed by lower-level staff groups. The lowest-ranking level was the Trade Policy Staff Committee (TPSC), staffed by senior-level career experts. The next level was the Trade Policy Review Group (TPRG), staffed by policymaking officials at the assistant secretary level. From there, decisions would move to the cabinet-level TPC.

The Cabinet Council system provided several forums in which agricultural policy concerns could be expressed. But it also meant that anyone who wanted to know the status of an agricultural trade policy issue had to check with all three Cabinet Councils, not to mention working level subcommittees such as those in the TPC sub-structure. Such overlap led to efforts to work outside official channels, and also tended to favor those players who had the strength and access to the White House to cut through the confusion and circumvent the channels.

In an effort to reduce the confusion and overlap, the Secretary of the Treasury Se~~cre~~tary formed a Senior Interagency Group (SIG) consisting of himself, the Secretary of State and other officials concerned with trade policy. But because this group did not have jurisdiction over the Cabinet Councils, it proved to be simply another committee with which already overburdened executives had to deal.

For these reasons, the Cabinet Council system was scrapped at the start of the second term of the Reagan Administration. It was replaced with a simpler structure: a Domestic Policy Committee (DPC), chaired by the Attorney General, and an EConomic Policy Committee (EPC), which supplanted the cabinet councils which affected agricultural trade policy, chaired by the Secretary of the Treasury.

Under this system, an agricultural trade policy question generally starts at the TPSC, which was retained in the new organization, or an agricultural working group of the TPSC. The TPSC debates the question and in instances where either a decision cannot be reached or the policy question is particularly significant, the question moves up the next level to the TPRG. Considerable decision-making occurs at this level, but if a decision is not forthcoming, the question moves up to the EPC. (The TPC has not been used since establishment of the EPC.)

If a question can't be decided there -- or if the question is considered highly significant -- the committee makes recommendations to the president, who makes the final decision on the issue.

Examples of recent trade policy questions that have reached the EPC are the dispute on citrus and pasta between the U.S. and the European Community, and the question of whether the administration should follow recommendations of the U.S. International Trade Commission to restrict footwear imports. The question was decided by President Reagan.

Most participants agree that the EPC system works far better than the Cabinet Council apparatus. Participants interviewed for this report were unanimous in their conclusion that the EPC eliminates the duplication and confusion that characterized the Cabinet Council structure. The more pyramid-like structure of the EPC system enables those with debating and advocacy skills to better present their points of view, participants agreed. The system also encourages greater participation by a wider range of officials; the confusion of the Cabinet Council system had led many officials to not attend at least some of the meetings.

But the new system has meant changes in the role of two key players: the Secretary of the Treasury and the U.S. Trade Representative. Because the EPC is chaired by the Treasury Secretary, USTR's role changes from that of "honest broker" at the lower level committees (which it chairs) to that of advocate if a trade policy question moves up to Cabinet level. This, point out some participants, is contrary to the intent of Congress, which intended for USTR to play a mediating, coordinating role when it established the agency in the early 1960's.

Some participants feel that the loss of USTR's "honest broker" role at the Cabinet level is a disadvantage for agricultural interests when it comes to farm trade questions. But those who hold that opinion are few; most participants say Congress is less concerned with the policy-making structure than with the decisions that result from it. They agree that the current U.S. Trade Representative, Clayton Yeutter, prefers the advocacy role that the current system affords him. Yeutter, a lawyer and economist, is considered a strong advocate who can use his skill to advantage during cabinet-level debate -- but he could not use those skills as readily if he chaired the EPC. Moreover, his strong agricultural background makes him an effective advocate when questions of agricultual trade reach the EPC.

However, this aspect of the positive evaluation of the EPC system raises another question. Does the success -- or failure -- of a trade policy-making structure rest with the system itself or with the people who participate in it? This question is just as important when examining the role that those players outside the administration -- the Congress and private sector groups -- play in the process.

Many of the trade policy decisions taken in recent years have not originated in the administration. Some have resulted from public and/or Congressional pressure. In such cases, the administration's role often has been to implement a decision which it does not like -- or, in some cases, to control what it views as possible damage from a decision which it does not believe to be in U.S. trade interests.

How that is done -- and whether the process or participants are the key ingredients in trade policy-making -- will be among those questions explored as this paper probes three recent agricultural trade policy decisions, and how those decisions were reached.

THE EEC STRATEGY PAPER

When the Reagan Administration took office in 1981, there were already stirrings of trouble in farm country. The 1980 embargo on grain exports to the Soviet Union, which was widely perceived as having been disastrous to U.S. agriculture, was still in effect, and would remain so until April, 1981. High real interest rates were beginning to push up the value of the U.S. dollar, and both farm prices and exports were starting to slacken.

At the same time, there was a growing perception that the Tokyo Round of multilateral trade negotiations, concluded in 1979, had not resulted in a favorable deal for American agriculture. Some U.S. officials felt that preoccupation with those talks on the part of the Carter Administration had diverted attention from problems that the Common Agricultural Policy (CAP) of the European Economic Community (EEC) were posing for U.S. agricultural trade.

With that backdrop, the Reagan Administration began to make clear its discontent with the agricultural policies of the EEC shortly after it took office. Agriculture Secretary John R. Block, U.S. Trade Representative William E. Brock,

and Deputy Secretary of the Treasury R. T. McNamar all voiced U.S. displeasure with what they called the EEC's protectionist trade policies during overseas visits in the spring of 1981. The U.S. was particularly concerned that the EEC would try to impose duties on corn gluten feed and soybeans, both of which were entering the EEC duty-free.

But there appeared to be little the Reagan Administration was willing to do to back up its tough talk. No official wanted to risk a costly trade war, such as what occurred in the 1960s over poultry and brandy. In addition, subsidies were contrary to the belief in the free-market tenets which formed a cornerstone of the administration's ideology.

But by the fall of 1981, with record crops in prospect and little chance of reversing what looked to be deteriorating prospects, administration officials began to think about what could be done to combat EEC trade practices. One result was a white paper commonly known as the "EEC Strategy Paper".

It is not clear where the idea for the paper originated. Some of those interviewed for this report said the idea came from then-U.S. Trade Representative William E. Brock, who asked his agricultural experts to work with USDA on preparing such a paper. Others said the idea originated within USDA's Foreign Agricultural Service (FAS) and was championed by then-Deputy Secretary Richard E. Lyng.

However, most of those interviewed agreed that the preparation of the paper was a joint effort between FAS and

USTR. FAS wrote the initial draft of the paper, with considerable editing by USTR. However, that editing was for style rather than content.

The paper's premise was that the U.S. needed to develop a comprehensive trade strategy designed to preserve its traditional access to EEC markets and prevent erosion of its competitive position in third country markets as result of EEC trade practices. The U.S. needed to move beyond reacting to what the EEC was doing, said the paper. However, retaliating against the Community was not in the interests of the U.S.; instead, selective pressure needed to be applied against the Community in order to persuade it to modify the trade practices the U.S. found objectionable.

The paper suggested that a "divide and conquer" strategy would be useful; in other words, appeal to countries such as the United Kingdom and West Germany, which the U.S. believed were most interested in reforming the CAP.

The paper said the U.S. could maximize pressure on the EEC to refrain from offending trade practices in a number of ways. One would have high-level U.S. officials put the EEC on notice that the U.S. would monitor the Community's policies for instances of displacement and/or price undercutting; another would apprise EEC officials in non-trade positions of the U.S. concerns. Such concerns also should be transmitted to meetings of the North Atlantic Treaty Organization (NATO), the Organization for Economic Cooperation and Development (OECD) and at the annual economic summit, the paper recommended.

Beyond that, the paper suggested that the U.S. should work with other countries affected by EEC trading practices to persuade the Community to change those activities; step up activity in the General Agreement on Tariffs and Trade (GATT) and initiate GATT action wherever appropriate. Other multilateral forums such as the Food and Agricultural Organization of the United Nations also could provide opportunities for the U.S. and other nations to work together to put pressure on the Community, the paper suggested. Those actions would create an appropriate climate in which the U.S. could seek agreements with the EEC that would eliminate or curtail objectionable practices.

The paper also said the TPSC should list unilateral actions the U.S. could take or threaten to take in order to counter EEC practices. However, the paper cautioned that the list should be compiled with the understanding the U.S. would be vulnerable to retaliation, and that no gains in third country markets should come at the expense of U.S. access to the EEC market itself. The paper suggested some programs which could strengthen the U.S.'s bargaining leverage and which could be implemented without giving the EEC justification for retaliation; the paper mentioned statutory subsidizing authority, PL-480 programs and Commodity Credit Corporation (CCC) export credit programs and dairy export programs.

Once the paper was written, it was approved through the entire trade policy chain: from the TPSC on up through the TPC. However, implementation of the paper's proposals did

not proceed smoothly, mainly because many of the recommendations were overtaken by subsequent events.

This was particularly true of efforts to implement unilateral actions against the EEC. The failure of a GATT panel to make a conclusive decision on a U.S. wheat subsidy complaint (despite years of litigation) and a discouraging GATT ministerial meeting in November, 1982, did generate sufficient momentum for the U.S. to go ahead with a subsidized wheat sale to Egypt in early 1983. This transaction, the first export-PIK, subsidized the sale of 1 million MT of U.S. wheat flour to Egypt , using 1.35 million MT of CCC wheat.

However, the Egypt transaction occurred at the same time as the domestic payment-in-kind program. Although the domestic program initially was billed as a cost-free method of disposing of government stocks, it later was perceived as being excessively costly.

That created a poor interagency climate for agricultural interests to try to sell subsequent subsidy programs, because other government agencies felt enough had been spent on agriculture. In particular, Office of Management and Budget Director David Stockman was reluctant to implement further programs, and at one meeting made it clear that he thought the EEC posed less of a problem for agricultural trade than agricultural interests believed.

In addition, there was continued resistance in the administration to ongoing subsidy programs. Administration

officials did not want to see such programs become entrenched and expected by affected industries.

That meant that the Egypt program was a one-shot deal without the followup necessary to maintain pressure on the EEC, as those who advocated the strategy had intended. It also pointed up a curious inconsistency in administration policy: a willingness to approve subsidies in principle (by approving the search for unilateral measures) but reluctance to put that principle into practice. But, as shall be seen in subsequent sections of this paper, the reasons for the reluctance are not necessarily what they appear to be.

The policy against subsidies that characterized early Reagan Administration trade decisions could be overcome if a more important goal were at stake. And the supposed high costs which prevented followup to the Egypt deal seemed unimportant to the administration two years later, when the 1985 Export Enhancement Program was agreed to by Stockman and Senate Majority Leader Robert Dole.

THE BLENDED CREDIT PROGRAM

The frustration with falling agricultural exports and with EEC trade practices that characterized 1981 escalated in 1982. By May, 1982 -- not quite a year after the initial salvos were fired by Block and other Reagan Administration officials -- Assistant Secretary of Agriculture for Economics William G. Lesher delivered a speech to the St. Louis Agribusiness Club that outlined the escalating

exasperation among U.S. government agricultural policy-makers.

Lesher did not confine his remarks to the EEC; other competitors who were increasing production as the U.S. cut its output also were cited. But Lesher indicated that the expanded output of competitor countries and the EEC's wheat export subsidies gave the U.S. the choice between two relatively unattractive policies: either cut production and gradually withdraw from the world market, or "draw a line and say 'enough, do not go beyond this point,' and implement policies that will ensure American farmers share in the benefits of expanding world markets." Such policies, added Lesher, could include temporary deviations from the Reagan Administration's free trade policy; engagement in "costly, short-run trade wars to achieve the principles that we have set forth" was mentioned specifically.

Such trade wars, suggested others such as Yeutter (then president of the Chicago Mercantile Exchange), could be waged with one-shot export subsidies or credit subsidies. The latter plan would pay part of the interest costs of export guarantees under current programs, or would restore the GSM-5 direct loan program of the Commodity Credit Corporation, which had been dormant since 1980. However, the White House had indicated little interest in funding another export credit program, the export credit revolving fund; that seemed to diminish the probability that money would be found for either export or credit subsidies. That lack of money was becoming a source of increasing

apprehension at USDA, where officials were seeing the farm economy deteriorate at the same time they were being told to hold the line on spending.

The frustration felt at USDA was echoed on Capitol Hill. The initial effort to alleviate that frustration was a bill introduced by Rep. Tom Hagedorn, R-Minn., in June, 1982. This legislation would have allowed USDA to buy down interest rates on export finance packages by as much as 4 points and extend the repayment period from 3 years to 10 years. But Congress ultimately gave USDA a way out of its dilemma later in the summer, when it passed a budget reconciliation act that included an amendment by Senate Agriculture Committee Chairman Jesse Helms, R-N.C., directing the administration to spend $175 to $190 million a year to subsidize agricultural exports for the next three years.

That gave USDA a new dilemma: how to spend the money. Ideas abounded within both the private sector and the government. But the Reagan Administration also found itself caught in a vise of conflicting pressures that made coming up with a decision particularly difficult.

Pressuring the administration on one side was the specter of Congressional elections, with a number of farm-state members of Congress -- including House Minority Leader and frequent administration ally Bob Michel, R-Ill. -- reported to be in trouble as the farm economy continued to deteriorate. On the other side, a meeting of trade ministers from GATT member countries was set for late

November, raising the question of whether the timing was right for a program directed against the EEC and other competitors.

One of the earliest candidates for subsidized help was high-value exports: fresh fruits and vegetables, dairy products, processed and semi-processed goods such as flour, oilseed products, meat and poultry. Poultry was an especially likely candidate for subsidy assistance because the European Community was using both direct and indirect subsidies to market it aggressively in the Middle East. The high-value idea had strong backing within USDA, where a study by the EEConomic Research Service showed that the EEC's concentration on exporting high value products meant that its per-ton export values were nearly five times those of the United States. The idea also had strong backing in FAS.

But the subsidizing of high value exports did not have unanimous support in the private sector. Bulk commodity groups such as the National Corn Growers Association didn't want to see emphasis shifted to high value products at their expense. And USDA's Lesher, in testimony before Congress in September, acknowledged that many countries preferred to import the raw commodity and do the processing themselves, creating needed jobs.

Moreover, others in the Reagan Administration were not convinced that subsidizing high-value exports was the best way to spend what was soon being called the "Helms money." The U.S. Trade Representative's office, for example, was

reluctant to engage in what would amount in a head-to-head subsidy battle with the EEC; that reluctance argued in favor of an interest rate buydown such as what Hagedorn had proposed. And there certainly were arguments in favor of that approach: some backers claimed that a 4 point buydown of interest rates over four years would equal a 15 percent price cut. But a buydown didn't alleviate the threat of a subsidy war: other exporters could still decide to cut their interest rates in response to U.S. cuts.

However, there was another factor in favor of a buydown that a direct subsidy couldn't match: it would go further. In the direct subsidy game, $175 to 190 million would have little effect against the EEC's $7 billion subsidy budget. It could do a lot more, however, to subsidize U.S. interest rates -- although proponents were careful to not use the word "subsidy" when discussing that alternative.

For those reasons, as the autumn progressed, administration thinking clearly began to come down on the side of some kind of buydown. FAS's export credit staff had been circulating various ideas among commodity groups, and by mid-October a new variation on the buydown idea had emerged: a blending of two USDA credit programs -- one with market rates and the other with no interest at all -- to achieve a financing package with a discounted rate. It is not clear where the idea originated -- at the time it was said to have originated with Stockman, but persons interviewed for this report indicated that the idea originated in FAS.

The Blended Credit Program was announced during the week of Oct. 25, 1982, by President Reagan and Secretary Block during a campaign stop in Illinois. The program was to synthesize four parts of the GSM-102 export loan guarantee program, which carried market-level interest rates, with one part of the resurrected GSM-5 direct credit program, which would carry no interest rate. The U.S. would use $100 million of the Helms money to finance the GSM-5 portion of the program; the GSM-102 portion, being a loan guarantee, was not considered a budget outlay.

Initially, the program avoided a head-on confrontation with the EEC, disappointing groups such as the Millers National Federation (MNF); that group's complaint with the GATT against EEC wheat export subsidies had been pending for seven years. MNF said the program should designate credit to specific countries for specific commodities; in other words, it should be targeted against those countries allegedly engaging in unfair trade practices.

Initially, the selection of countries for the program avoided much of the usual interagency process. The choosing of countries and commodities was left to USDA, which began to solicit possible recipients both from the candidates themselves and from export interests. The result was that the program's first year of operation was an across-the-board proposition: recipient countries included Morocco, which clearly meant acquisition of an EC market but also included the Philippines and other developing countries that were not traditional EEC markets.

But the Community was not neecessarily the only non-U.S. exporter that was nervous about the program. Canada and Australia, the other two major non-U.S. wheat exporters, were less than happy with the idea of losing their markets to the U.S. program, and complained to the Departments of State and Treasury. These countries -- which, unlike the Community, did not subsidize their exports -- found sympathetic ears at State and Treasury, which began to make clear that they did not want such exporters to be affected. The result was that the second year of the program was much narrower in scope than the first: blended credit allocations were confined to North African countries that had been purchasing wheat at below-market prices from the EEC.

The third year of the program began in much the same vein. But an earlier concern about the program -- whether or not it was a subsidy -- came back to haunt U.S. agricultural export interests in February, 1985, in the midst of the program's third operating year. Early in the program's operation, a coalition of maritime interests had sued USDA and the Department of Transportation, charging that the program violated U.S. cargo preference laws. Cargo preference laws require that 50 percent of U.S. government-generated exports be transported on U.S.-registered vessels, which generally charge much higher freight rates than non-U.S. carriers do. The cargo preference laws already covered PL-480 programs, and the administration had applied the 50 percent criterion to the subsidized Egyptian wheat

flour sale of January, 1983. But it maintained that cargo preference should not be applied to the blended credit sales, which the administration said were designed to compete with commercial financing offered by other countries. The maritime interests disagreed, saying that the money allocated to blended credit constituted a subsidy, and that the sales would not have come about without government intervention; hence, they were government-generated.

A federal court agreed with the maritime interests and ruled in February, 1985 that cargo preference requirements should be applied to blended credit sales. USDA's response was to suspend $536 million of blended credit sales of U.S. wheat to four Mideast countries. Agricultural groups began a long and ultimately unsuccessful fight to limit the scope of cargo preference laws.

In the case of the Blended Credit Program, the classic trade policy process was used very little -- but that circumvention probably made little difference in the outcome of the program. No trade policy structure could overcome the conflicting pressures that the Reagan Administration faced in developing and implementing the program, or the fact that the success of the program in generating additional sales ultimately led to its legal downfall.

THE 1985 EXPORT ENHANCEMENT PROGRAM

In early 1985, U.S. agricultural export prospects, which had been deteriorating for the past several years, pointed toward new lows: an early March USDA forecast put overseas shipments of U.S. farm products at $35.5 billion for the year, followed just three weeks later by a $1 billion downward revision. Department analysts blamed increased competition for a smaller demand pie and the continued strength of the U.S. dollar for the drop.

The dismal export prospects increased pressure on the Reagan Administration by commodity groups for protection, by Congress for export subsidies, and from all quarters to take concrete action against the competitors that USDA blamed for the country's poor export performance. Among private sector groups such as the Rice Millers Association and the Millers National Federation, an export PIK similar to the wheat flour sale to Egypt in 1983 began to be seen as at least a partial solution to the double problem of poor performance and perceived government timidity about resolving it.

An earlier call for export assistance had come in late 1983 and early 1984 from the American Farm Bureau Federation. What was notable about the Farm Bureau's call is that the organization was a frequent supporter of Reagan Administration positions and was philosophically committed to free trade. But Washington office director John Datt broke with that philosophy in a speech to the U.S. Agricultural Export Development Council in November, 1983.

In that presentation he called on the Reagan Administration to announce that the U.S. would meet price

and export credit competition even if subsidies were required, and proceed to fund such efforts. In addition, said Datt, the U.S. should "scare" the EEC with legislation that would withdraw most-favored-nation status from any country that distorted world trade and used export subsidies to secure markets for its exports.

Export assistance would help, some economists and export interest groups agreed -- particularly in the case of beleaguered U.S. wheat exports. A study by the economic consulting firm Abel, Daft and Early commissioned by U.S. Wheat Associates said there was potential success in a program of assistance combining PL-480, GSM-102, GSM-5, the GSM-301 intermediate credit program, the Blended Credit Program and an export PIK program tailored to the needs of selected countries. The study asserted that such assistance would, within five years, reduce the U.S. wheat surplus by 180 million bushels and result in net savings of $450 million to the government.

The administration felt differently. It still was hamstrung by the need to cut outlays, including those that might result in budget savings later. As part of its 1985 omnibus farm bill, the administration proposed the cutting of loan rates in order to help U.S. agricultural exports become more competitive with other countries. But the trade title of its bill contained very little in the way of additional proposals designed to help flagging farm trade. And even those who backed cuts in the loan rates pointed out that the cuts would not take effect until 1986 crops were

harvested -- in effect, 18 months would elapse before U.S. prices would begin to become competitive.

Frustration continued to build in the private sector as well as on Capitol Hill. In the spring, bills creating export PIKs were introduced in both houses of Congress. And in May, U.S. frustration increased when French President Francois Mitterand refused to agree to a date for a new round of multilateral trade negotiations. The French leader contended that a new round should be held in conjunction with discussions on the world monetary system. But the U.S., perhaps mindful that such discussions would focus on the high U.S. dollar and the budget deficits that were powering it, said such discussions were not necessary.

The new GATT round was important to the administration and to U.S. farm interests, who viewed the parley as a chance to redress grievances with the GATT dispute settlement mechanism and subsidies code, neither of which seemed to U.S. interests to be effective in dealing with perceived unfair trade practices, particularly those of the EC. The delay in setting a date for the GATT round gave those pushing the export PIK an angry and newly desperate edge. However, proponents were not all necessarily pushing the same kind of program: some thought it would be a repeat of the isolated "shot-across-the-bow" that the 1983 Egyptian wheat deal had been; others thought it would be an across-the-board, ongoing subsidy.

In any case, the administration was occupied with other matters: namely, securing enough favorable votes to pass a

resolution setting spending levels for FY86 programs. The vote looked to be extremely close, giving the administration a desperate edge of its own.

It was in this atmosphere that Dole and Stockman agreed to a deal that first appeared to please everybody but ended up pleasing no one. In exchange for Dole's delivering key votes on the budget resolution from farm state senators, Stockman agreed to administration implementation of an export PIK. The deal apparently occurred without the knowledge of other administration officials; Block, for example, reportedly did not learn of the deal until the day after it was cut.

If desperation was the byword before Dole and Stockman cut their deal, confusion was the byword afterward. Working level staffs first heard about the program in the press; here, as before, it was unclear whether the program would be targeted to specific markets or applied across the board. An announcement by Block in late May of a $2 billion, three-year program did nothing to clear the confusion, in part because Block admitted he didn't know how the program would work -- although he did say that it would be designed to create demand in addition to what would be sold normally and that it would be targeted to areas where the U.S. had lost exports because of other countries' unfair practices.

It was left to confused working level personnel to try to make sense of it. Shortly after Dole and Stockman reached their agreement, a meeting of working level personnel was held that included representatives from the

Agriculture, Commerce, State and Treasury departments; USTR; OMB, and the Council of EEConomic Advisors. The Treasury representative chaired the meeting. USDA had drafted some sample programs, while USTR had drafted proposed guidelines which were passed around to the participants. However, the guidelines were presented as the personal idea of the USTR staffer, not as USTR policy.

The guidelines suggested that the program not materially undercut world prices, not obtain a more-than-equitable share of the market in the subsidized commodity, be aimed at all exporting countries that subsidized, not allow the Soviet Union or Eastern Europe to benefit, and limit damage to non-subsidizing countries. However, the latter consideration was not to be an overriding factor.

Considerable debate ensued. A representative of the Treasury Department objected to the guideline extending the program to all subsidizing countries, contending that it could hurt the ability of some less developed countries such as Brazil to repay their debts. None of the participants wanted to deal with the guideline concerning the Soviet Union and Eastern Europe: favoring the guideline would mean approving exclusion of an important customer from the program; not favoring it would be contrary to administration philosophy, which did not look kindly on sales concessions to the USSR.

The meeting ended with little agreement except to forego written guidelines for the program. The USTR staffer

collected the guidelines passed out during the meeting and later destroyed the original.

It is not clear where subsequent working guidelines originated. Individuals interviewed for this paper suggested agreement came at the sub-cabinet level -- an unusually high level for such a program. The guidelines agreed to, and announced by Block, included achieving additional exports, budget neutrality, cost-effectiveness, and targeting the program rather than making it an across-the-board subsidy.

USDA subsequently drafted proposals for programs; some came from commodity groups, others were generated within the department. Initially, the requests were given to the TPSC, and moved upward to the TPRG. But as time went on, the proposals moved through the process with little difficulty. Ultimately, the proposals were kept at the TPRG level.

But if the administration was experiencing little difficulty in agreeing how to implement a program it had never wanted, that agreement was not shared outside government. Commodity groups and members of Congress alike attacked the program for not reaching across the board; an advisory group USDA established to assist in coming up with program ideas said at its sole meeting that the program would not work unless it was applied in a non-discriminatory manner. The outcry became particularly strong in the fall of 1985, when the Soviet Union hinted that its failure to purchase the minimum amount of wheat required under its supply agreement with the U.S. was due in part to its

exclusion from the program. But the administration was united in its insistence that the program remain targeted -- an insistence which continues despite pressure from some agricultural interest groups and like-minded members of Congress to broaden the aim of the program.

The Food Security Act of 1985 required USDA to implement an across-the-board export subsidy program. The administration has not determined how that program will be implemented.

POLICY AND PROCESS

Decisions for three important agricultural trade issues were made in varying ways, demonstrating that the standard agricultural trade policy-making process was utilized to different degrees.

But these decisions also demonstrate there is more than one way in which trade policy decisions can be reached. To summarize, in the simplest form, agricultural trade policy decisions can be made in these ways:

-- by the "standard" method, through whatever executive branch policymaking committee machinery is established by a given administration.

-- by the "congressional" approach, in which the pressure for a decision originates with one or more members of Congress (or in which the members act as intermediaries for agricultural interest groups) willing to continually apply that pressure to the executive branch.

-- by the "external" approach, in which the pressure for a decision orginates with citizens or organizations willing to continually apply that pressure (most often through members of Congress) on the executive branch until a decision is effected.

For the EEC strategy paper, which was initiated within the Reagan Administration, the "standard" progression of initiating an issue at the TPSC level and moving it up to Cabinet level was followed closely.

The Blended Credit Program was the administration's response to a congressional directive to spend money to increase exports. It followed the "standard" process less closely in its initial formulation and through its first year of operation. Its second year, however, saw more interagency activity.

The Export Enhancement Program, which was foisted onto an unwilling administration by determined farm-state members of Congress supported by active lobbing by agricultural interest groups, saw the "standard" trade policy process playing catch-up as executive branch officials tried to formulate guidelines which they felt would control the damage from what they considered to be a bad policy.

Most officials interviewed for this paper indicated that they believe the trade policy process works quite well, particularly when compared with the more cumbersome Cabinet Council system of the Reagan Administration's first term. But their definition of what constitutes a successful system differs from those of some private sector agricultural

groups interviewed -- and it is this difference that needs to be understood if agricultural interests are to be successful in the government affairs arena.

From inside government -- and this includes both current and former government officials -- a successful trade policy system means that all parties have an opportunity to air their concerns, and that the natural talents of all players come to the fore. Under the first term policy-making structure, this did not occur: the widespread duplication and overlap of jurisdiction caused confusion and diluted the effectiveness of many officials.

What success does not mean -- nor should it -- is that agriculture's point of view will always win out on an issue. This does not mean that that viewpoint doesn't have merit; it means that others also have merit and that all will be factored into a final decision.

Officials interviewed for this report were asked how a private sector group with an agricultural trade idea could sell that idea to the administration. Their answers -- from career civil servant to Cabinet-level official -- were remarkably consistent.

The first step in the process is to bring the idea to the attention of career officials. At USDA, this might be an FAS assistant administrator; at USTR it would be an assistant or deputy assistant U.S. trade representative; at the State Department, it would be the head of the Food Policy Office. Other agencies that would be important to contact would be the Office of Management and Budget, the

Treasury Department and perhaps the Commerce Department (in instances where other industries might feel threatened by the agricultural idea).

Selling an idea at this level is important, say officials, because persons at this level are conduits of information to the sub-cabinet and cabinet level officials to whom they report.

If officials at this level think the idea has merit, a TPSC meeting will be called. The idea will be discussed at that level. If it is a significant idea, and the TPSC thinks the idea has merit, it will move up to the TPRG. Here is the crucial level, say many officials; the assistant secretary level is where most of the operative decisions occur.

When the issue is moving to the TPRG, it is important to maintain contact and to move lobbying efforts to the assistant secretary level at all departments involved. It's also important -- at this point or earlier -- to get members of Congress interested in the idea. Members of the House and Senate Agriculture Committees, the Senate Finance Committee and the House Ways and Means Committee should be the targets, as well as any other key members -- in this administration, key Congressional Republicans.

If the issue is not agreed upon in the TPRG, or is agreed upon but is considered crucial it moves to the EPC. If a decision cannot be reached there, the issue goes to the president, often through a presentation made at a later EPC meeting attended by the president.

Knowing who to contact, however, is only half the task. The other half is knowing what to say and to couch the idea in terms that will appeal to each agency's particular interests. With USDA, for example, the main concern on a trade idea is likely to be the maximizing of exports. At USTR, a concern might be what effect a trade idea will have on current trade agreements and on future trade negotiations. At the State Department, the biggest concern is likely to be the effect on overall U.S. foreign policy objectives; at Treasury, the emphasis will be on the positions of highly indebted developing countries. The Office of Management and Budget's big concern, not too surprisingly, will be the cost of an idea; Commerce is likely to emphasize the effect of an agricultural idea on other U.S. industries.

It is also important for non-agricultural agencies to have a better understanding of the farm groups that are making a case. That means inviting officials from these agencies to annual meetings of farm groups, and otherwise increasing contact; several of those interviewed said farm groups did not maintain contact with the frequency that they should. The same is true of career civil servants at the sub-cabinet level and below.

CONCLUSION

One must recognize that each agency's collective personality and the individual personalities of its

officials are at least as important as the process. One of the few common threads that ran through all of the interviews with people experienced in agricultural trade policy-making was a belief that the personalities of the players have as much if not more to do with the outcome of the policy process than does the policy-making structure. It was felt that a less than satisfactory system could be made adequate by having talented people pull its levers; conversely, a good system could not guarantee good policy decisions if manned by officials who were less talented or in other ways inadequate.

When reasssessing the three trade policy decisions that are the subject of this paper, this becomes abundantly clear. What matters most is not whether the process works, but the perceptions brought to the process by those working it. In recent years, many of those perceptions have been inconsistent: either with the world trade arena in which the U.S. was operating (for example, continued refusal to engage in any kind of ongoing subsidy program even though other countries were doing just that and gaining markets at the expense of the U.S.) or with each other (for example, a stated goal of increasing agricultural exports but a refusal to make the monetary investments in programs that would achieve that goal.) An optimal policy-making system cannot alleviate those inconsistencies; at best, it can only make them clear to all concerned.

This does not mean knowledge of the policy-making process is without value; on the contrary, it provides an

excellent start to understanding how policy is made. But those agricultural groups that want to be effective in the process must understand that success depends as much on understanding what the system cannot do as on what it can -- and then using that understanding to maximum advantage.

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AGRICULTURAL TRADE POLICY
COORDINATING MECHANISMS
SINCE 1985

The President

Economic Policy Council (EPC)

Secretary of the Treasury (Chair)
Secretary of Agriculture
Secretary of Defense
Secretary of the Interior
Secretary of State
Director, Office of Management and Budget
Assistant to the President for National Security
United States Trade Representative
Attorney General
Secretary of Commerce
Secretary of Energy
Secretary of Labor
Secretary of Transportation
Chairman, Council of Economic Advisers
Director, U.S. International Development Cooperation Agency

Trade Negotiating Committee (TNC)

United States Trade Representative (Chair)
Secretary of Labor
Secretary of the Treasury
Secretary of Agriculture
Secretary of Commerce
Secretary of State

Trade Policy Review Group (TPRG)

Deputy United States Trade Representative (Chair)

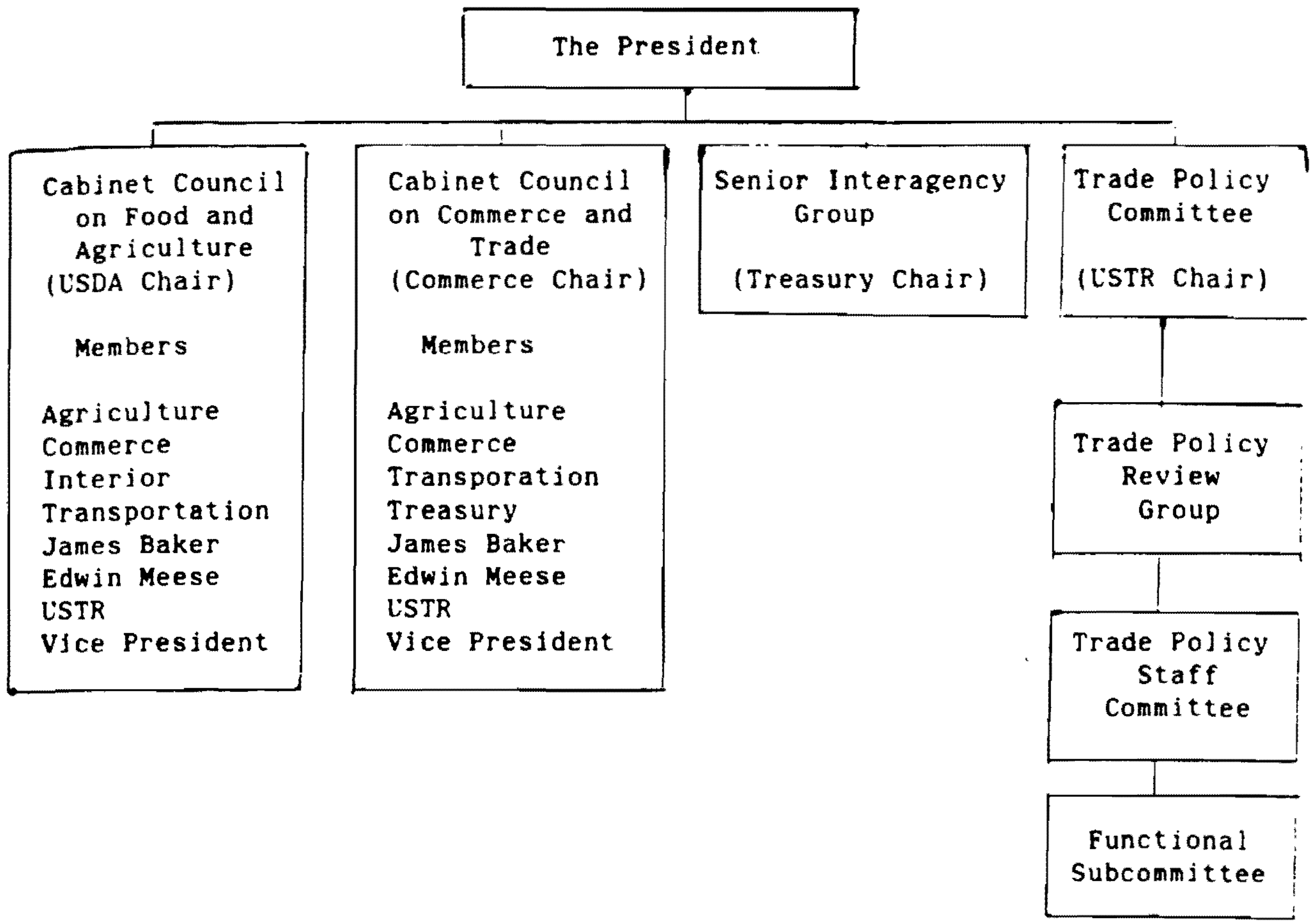
Under Secretary-level members of agencies on the Trade Policy Committee

Trade Policy Staff Committee (TPSC)

Assistant United States Trade Representative (Chair)

Senior civil servant-level members of agencies on the Trade Policy Committee; advisor from the U.S. International Trade Commission

AGRICULTURAL TRADE POLICY
COORDINATING MECHANISMS
1981 THROUGH 1984



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SECTION THREE:

AUTHORIZATION, ASSOCIATE VIEWS AND OTHER INFORMATION PERTAINING TO THE COMMISSION

AUTHORIZATION

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AGRICULTURAL TRADE AND EXPORT POLICY COMMISSION ACT

31-139 O - 84 (428)

Public Law 98-412
98th Congress

Joint Resolution

Aug 30 1984
[H.J. Res. 600]

To amend the Agriculture and Food Act of 1981 to provide for the establishment of a commission to study and make recommendations concerning agriculture-related trade and export policies, programs, and practices of the United States.

Agricultural Trade and Export Policy Commission Act.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That title XII of the Agriculture and Food Act of 1981 is amended by inserting after subtitle B a new subtitle C as follows:

"SUBTITLE C—AGRICULTURAL TRADE AND EXPORT POLICY COMMISSION ACT

"SHORT TITLE

7 USC 1691 note.

"SEC. 1217. This subtitle may be cited as the 'Agricultural Trade and Export Policy Commission Act'.

"FINDINGS AND DECLARATION OF POLICY

7 USC 1691 note.

"SEC. 1218. (a) Congress finds that—

"(1) the economic well-being of the Nation's agricultural industry is directly related to its ability to compete in international markets; and

"(2) a thorough examination of agriculture-related trade and export policies, programs, and practices of the United States is needed to ensure that such policies, programs, and practices increase the competitiveness of United States agricultural commodities and products in international markets.

"(b) It is hereby declared to be the policy of Congress to expand international trade in United States agricultural commodities and products and to develop, maintain, and expand markets for United States agricultural exports.

"ESTABLISHMENT

National Commission on Agricultural Trade and Export Policy, establishment.
7 USC 1291 note.
President of U.S.

"SEC. 1219. (a) There is established a National Commission on Agricultural Trade and Export Policy to conduct a study of the agriculture-related trade and export policies, programs, and practices of the United States.

"(b) In addition to the ex officio congressional members specified in subsection (c) of this section, the Commission shall be composed of twenty-three members appointed or designated by the President and selected as follows:

"(1) The President shall select three members from among officers or employees of the Executive branch who shall serve in an ex officio capacity without voting rights; and

"(2) The President pro tempore of the Senate and the Speaker of the House of Representatives shall each select ten members from among private citizens of the United States to represent industries that are directly affected by agriculture-related trade and export policies, programs, and practices of the United States, including, but not limited to, the following:

"(A) producers of major agricultural commodities in the United States;

"(B) processors or refiners of United States agricultural commodities;

"(C) exporters, transporters, or shippers of United States agricultural commodities and products to foreign countries;

"(D) suppliers of production equipment or materials to United States farmers;

"(E) providers of financing or credit for domestic and export agricultural purposes; and

"(F) organizations representing general farm and rural interests in the United States.

"(c) The chairmen and ranking minority members of the House Committee on Agriculture, the Senate Committee on Agriculture, Nutrition, and Forestry, the House Committee on Foreign Affairs, the Senate Committee on Foreign Relations, the House Committee on Ways and Means, and the Senate Committee on Finance shall serve as ex officio members of the Commission and shall have the same voting rights as the members of the Commission selected and appointed under the provisions of subsection (b)(2) of this section. The chairmen and ranking minority members may designate other members of their respective committees to serve in their stead as members of the Commission.

"(d) A vacancy in the Commission shall be filled in the manner in which the original appointment was made.

"(e) The Commission shall elect a chairman from among the members of the Commission who are selected and appointed under the provisions of subsection (b)(2) of this section.

"(f) The Commission shall meet at the call of the chairman or a majority of the Commission.

"CONDUCT OF STUDY

"SEC. 1220. The Commission shall study the agriculture-related trade and export policies, programs, and practices of the United States and the international and domestic factors affecting such policies, programs, and practices, including the intergovernmental activities of the United States that affect the formulation of policies. In conducting the study, the Commission shall consider, among other things, the following: 7 USC 1691 note

"(1) the effectiveness of existing agricultural export assistance programs, and the manner in which they can be improved;

"(2) new export assistance programs that should be considered, and the conditions under which they can be implemented;

"(3) practices of foreign countries that impede the export of United States agricultural commodities and products, and appropriate responses for the United States;

"(4) the effectiveness of the trade agreements program of the United States with respect to agriculture-related trade and exports, and the manner in which it can be improved;

"(5) international economic trends that affect agricultural exports, and the manner in which the United States can best adjust its policies, programs, and practices to meet changing economic conditions;

"(6) potential areas of conflict and compatibility between international agricultural trade and foreign food assistance programs, and the manner in which any conflict can be resolved; and

"(7) the relationship between international agricultural trade and foreign economic development and food programs, and the manner in which they can be made more compatible.

"RECOMMENDATIONS AND REPORTS

7 USC 1691 note "SEC. 1221. (a) On the basis of its study, the Commission shall make findings and develop recommendations for consideration by the President and Congress with respect to the agriculture-related trade and export policies, programs, and practices of the United States, and the manner in which such policies, programs, and practices can be improved to better develop, maintain, and expand markets for United States agricultural exports.

"(b) The Commission shall submit to the President and Congress—

"(1) a report containing its initial findings and recommendations by March 31, 1985,

"(2) such additional interim reports on its work as may be requested by the chairman of any of the Committees set forth in section 1219(c) of this subtitle, and

"(3) a report containing the final results of its study and its recommendations therefrom by July 1, 1986.

"ADMINISTRATION

7 USC 1691 note. "SEC. 1222. (a) The heads of Executive agencies, the General Accounting Office, the International Trade Commission, and the Congressional Budget Office shall, to the extent permitted by law, provide the Commission such information as it may require in carrying out its duties and functions.

"(b) Members of the Commission shall serve without any additional compensation for work on the Commission. However, members appointed from among private citizens of the United States may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons serving intermittently in the government service under sections 5701 through 5707 of title 5, United States Code.

"(c) To the extent there are sufficient funds available to the Commission in advance under section 1223 of this subtitle, and subject to such rules as may be adopted by the Commission, the chairman, without regard to the provisions of title 5, United States Code, governing appointments in the competitive service and without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates, shall have the power to— 5 USC 5101 *et seq.*, 5331.

"(1) appoint and fix the compensation of a director; and

"(2) appoint and fix the compensation of such additional staff personnel as the Commission determines necessary to carry out its duties and functions.

"(d) Upon request of the Commission, the Secretary of Agriculture shall furnish the Commission with such personnel and support services as are necessary to assist the Commission in carrying out its duties and functions.

"(e) Upon request of the Commission, the heads of other Executive agencies and the General Accounting Office are each authorized to furnish the Commission with such personnel and support services as the head of the agency or office and the chairman of the Commission agree are necessary to assist the Commission in carrying out its duties and functions.

"(f) The Commission shall not be required to pay or reimburse any agency or office for personnel and support services provided under this section.

"(g) In accordance with section 12 of the Federal Advisory Committee Act, the Secretary of Agriculture shall maintain such financial records as will fully disclose the disposition of any funds that may be at the disposal of the Commission and the nature and extent of its activities, and the Comptroller General of the United States, or any of the Comptroller General's authorized representatives, shall have access to such records for the purpose of audit and examination. 5 USC app

"(h) The Commission shall be exempt from section 7(d), section 10(e), section 10(f), and section 14 of the Federal Advisory Committee Act. 5 USC app.

"(i) The Commission shall be exempt from the requirements of sections 4301 through 4305 of title 5, United States Code.

"PUBLIC SUPPORT

"SEC. 1223. (a) Following the appointment or designation of the members of the Commission, notwithstanding the provisions of section 1342 of title 31, United States Code, the Secretary of Agriculture may receive, from persons, corporations, foundations, and all other groups and entities within the United States, contributions of money and services to assist the Commission in carrying out its duties and functions. Any money contributed under this section shall be available to the Commission for the payment of salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle. In no event may the contributions from any one person, corporation, foundation, or other group or entity exceed 5 per centum of the Commission's total budget. 7 USC 1691 note

"(b) If the contributions provided under subsection (a) are insufficient for payment of Commission salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle, the Secretary of Agriculture is authorized to use the funds of the Commodity Credit Corporation for such purposes in an amount not to exceed a total of $1,000,000.

Public availability.

"(c) The Secretary of Agriculture shall keep, and shall make available for public inspection during normal business hours, records that fully disclose a complete list of every person, group, and entity making a contribution under this section, the address of the contributor, the amount and type of each such contribution, and the date the contribution was made.

"(d) Any amount of money available to the Commission under this section that remains unobligated upon termination of the Commission shall be deposited in the Treasury as miscellaneous receipts.

"TERMINATION

7 USC 1691 note.

"SEC. 1224. The Commission shall terminate sixty days after the transmission of its final report to the President and Congress.".

Approved August 30, 1984.

LEGISLATIVE HISTORY—H.J. Res. 600 (H. Con. Res. 349):

HOUSE REPORT No. 98-956, Pt. 1 (Comm. on Agriculture).
CONGRESSIONAL RECORD, Vol. 130 (1984):
Aug. 6, considered and passed House.
Aug. 10, considered and passed Senate.
WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 20, No. 35 (1984):
Aug. 30, Presidential statement.

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AGRICULTURAL TRADE AND EXPORT POLICY COMMISSION ACT

AUGUST 6, 1984.—Ordered to be printed

Mr. DE LA GARZA, from the Committee on Agriculture, submitted the following

REPORT

[To accompany H.J. Res. 600]

[Including cost estimate of the Congressional Budget Office]

The Committee on Agriculture, to whom was referred the joint resolution (H.J. Res. 600) to amend the Agriculture and Food Act of 1981 to provide for the establishment of a Commission to study and make recommendations concerning agriculture-related trade and export policies, programs, and practices of the United States, having considered the same, report favorably thereon with amendment and recommend that the joint resolution as amended do pass.

The amendments are as follows:

1. On page 3, on each of lines 18, 20, and 23, and on page 4, line 1, strike out "and" and insert in lieu thereof "or";
2. On page 5, line 8, insert ", among other things," immediately after "consider";
3. On page 6, line 8, insert "and food" immediately after "foreign economic development";
4. On page 9, line 8, strike out "4308" and insert in lieu thereof "4305";
5. On page 9, strike out lines 11 through 20 and insert in lieu thereof the following—

> SEC. 1223. (a) Following the appointment or designation of the members of the Commission, notwithstanding the provisions of section 1342 of title 31, United States Code, the Secretary of Agriculture may receive, from persons, corporations, foundations, and all other groups and entities within the United States, contributions of money and services to assist the Commission in carrying out its duties and functions. Any money contributed under this section

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shall be available to the Commission for the payment of salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle. In no event may the contributions from any one person, corporation, foundation, or other group or entity exceed 5 per centum of the Commission's total budget.

(b) If the contributions provided under subsection (a) are insufficient for payment of Commission salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle, the Secretary of Agriculture is authorized to use the funds of the Commodity Credit Corporation for such purposes in an amount not to exceed a total of $1,000,000.

6. On page 9, line 21, and page 10, line 3, strike out the subsection designations "(b)" and "(c)" and insert in lieu thereof "(c)" and "(d)", respectively.

Brief Explanation

H.J. Res. 600 would establish a National Commission on Agricultural Trade and Export Policy to conduct a study of agriculture-related trade and export policies, programs, and practices of the United States and the manner in which they can be improved to better develop, maintain, and expand markets for United States agricultural exports.

The Commission would be composed of thirty-five members. Three would be non-voting members selected by the President from the Executive branch; ten would be voting members selected each by the President pro tempore of the Senate and the Speaker of the House from private citizens to represent industries directly affected by agriculture-related trade; and the balance would also be voting members consisting of the chairmen and ranking minority members of the House Committee on Agriculture, the Senate Committee on Agriculture, Nutrition, and Forestry, the House Committee on Foreign Affairs, the Senate Committee on Foreign Relations, the House Committee on Ways and Means, and the Senate Committee on Finance.

The Commission is required to submit to the President and Congress a report of its initial findings and recommendations by March 31, 1985; interim reports as requested by the chairman of the relevant congressional Committees; and the final report by July 1, 1986.

After appointment of the Commission members, the Secretary of Agriculture could receive contributions from persons, groups, and entities in the United States to cover Commission expenses. The contributions from any one source could not exceed 5 percent of the Commission's budget. As a backup, if contributions are insufficient to meet Commission expenses, the Secretary would be authorized to use Commodity Credit Corporation funds in an amount not to exceed $1,000,000. The Secretary of Agriculture is required, and the heads of other Executive agencies and the General Accounting Office are authorized, upon request, to furnish the Commission with support personnel on a non-reimbursable basis.

The Commission would terminate sixty days after transmission of its final report.

Purpose and Need

The serious decline in U.S. agricultural exports since 1980/81 has given rise to concern within the agricultural community about the effectiveness of current government policy for maintaining and expanding the volume, value, and market share of U.S. agricultural commodities and products in the world export market. H.J. Res. 600 provides for establishment of a broad-based independent Commission to conduct a study of this issue and develop recommendations for the President and the Congress on the manner in which current government export policy can be improved.

The volume of U.S. agricultural exports has declined 13 percent since 1980, from a record level of 163.9 million metric tons to a projected level of 142 million tons in 1984. At the same time, the dollar value of U.S. agricultural exports has declined from a record level of $43.8 billion in 1981 to a low of $34.8 billion in 1983.

Exports are a mainstay of profitability in the U.S. agricultural economy. Indeed, since the mid-1970s, U.S. agriculture has become increasingly export-dependent. During the decade of the 1970s, the volume of total U.S. agricultural exports increased on an average of 10 percent per year with the total exports more than doubling and the value of those exports increasing more than fivefold.

The growth of export markets which occurred in the 1970s created the circumstances which allowed for the expansion of U.S. agricultural output. Conversely, the contraction of overseas sales which has occurred since 1980 places tremendous pressure on U.S. producers in the face of mounting agricultural surpluses.

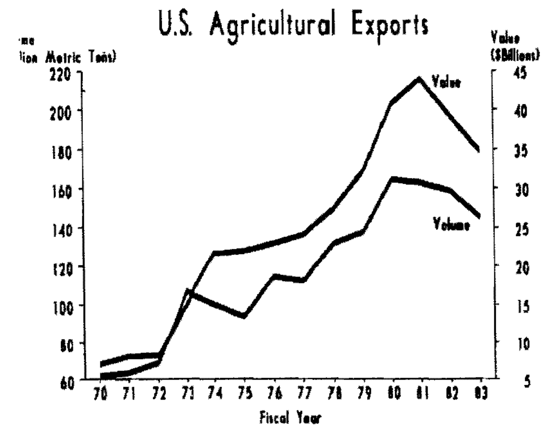

TABLE I.—U.S. AGRICULTURE EXPORTS

[Dollars in billions]

	Volume (million metric tons)	Value
Fiscal year:		
1970	61.8	$7.0
1971	63.3	8.0
1972	68.6	8.2
1973	106.6	15.0
1974	99.9	21.6
1975	93.5	21.9
1976	114.1	22.8
1977	111.9	24.0
1978	131.3	27.3
1979	137.4	32.0
1980	163.9	40.5
1981	162.3	43.8
1982	157.9	39.1
1983	144.8	34.8
1984[1]	142.0	38.0
1984[2]		

[1] Current forecast—May 17, 1984
[2] For release on Aug. 20, 1984

Source: USDA.

Two of every five acres harvested in the United States today are devoted to the production of crops that are exported. More than half of the wheat, soybeans, and sunflower seed; one-third of the rice, cotton, and tallow; and more than one quarter of all the tobac-

co and feed grains produced in the United States is exported to markets throughout the world. U.S. agricultural exports go to more than 130 countries on all five continents, including such significant markets as Japan, the Netherlands, the USSR, Canada, Spain, China, Korea, West Germany, Mexico, Taiwan, Italy, Great Britain, Belgium, Egypt, and Venezuela. Our great agricultural abundance, therefore, provides a tremendous variety of low-cost foods and fibers not only for our own citizens but for millions of people in both developed and developing nations.

The importance of exports for farm income cannot be underestimated. During the years of declining exports since 1980, net farm income in the United States has declined from a level of $30.1 billion in 1981 to a projected level of between $15 and $17 billion in 1983.

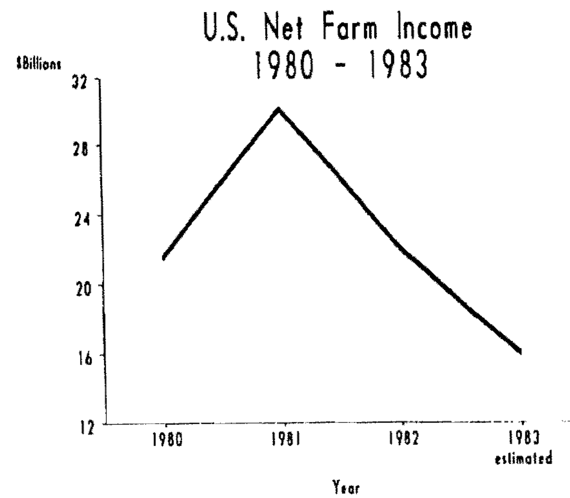

TABLE II.—*U.S. net farm income, 1980–1983*

[In billions of dollars]

Year:	
1980	21.5
1981	30.1
1982	22.1
1983[1]	15 to 17

[1] Estimated.

Source: USDA.

While our nation's producers lose income from declining exports, the nation also suffers from a mounting trade deficit. Agricultural exports have in the past provided a bright spot in an otherwise dismal picture of our balance of trade with foreign countries. The current U.S. trade deficit, which is forecast to exceed $100 billion by the end of this year, is in part a result of continuing downward trend in agricultural exports.

As worrisome as this situation is in respect to the decline in total exports, perhaps more serious is the decline in the total world market share of U.S. commodities which has occurred since 1980. The U.S. world market share of coarse grain exports has declined from 66 percent in 1980 to a projected level of 56 percent in 1985; wheat has declined from 40 percent to 35 percent; cotton from 40 percent to 29 percent; soybeans from 66 percent to 54 percent; and rice from 22 percent to 17 percent during the same period. It is likely that further declines may occur during the final years of this decade should current conditions affecting US. exports persist.

TABLE III.—U.S. MARKET SHARE OF WORLD TRADE

[In percent]

	Fiscal year—					
	1980	1981	1982	1983	1984 [1]	1985 [1]
Coarse grains	66	59	54	55	55	56
Corn	84	76	74	74	79	79
Wheat	40	42	44	38	36	35
Cotton	40	30	33	28	37	29
Soybeans	66	55	61	58	53	54
Rice	22	73	22	19	16	17
Whole fryers	16	13	4	([2])	([2])	([2])

[1] Preliminary.
[2] No forecast available.

Source: USDA.

A number of significant factors have been identified as contributing to problems affecting U.S. trade in agricultural commodities and products. High interest rates, in part the result of a growing federal budget deficit at home, have strengthened the U.S. dollar in relation to other currencies. The value of the U.S. dollar may be as much as 20 percent higher today than it was two years ago in relation to the world's 15 leading currencies. A strengthened dollar increases the price of U.S. commodities in world markets, providing an incentive for expanded production of agricultural commodities and products by competitor nations.

TABLE IV.—EFFECTIVE EXCHANGE RATES OF THE U.S. DOLLAR—UNADJUSTED AND ADJUSTED FOR INFLATION DIFFERENTIAL

[Index numbers, 1980–82 average = 100, and percentage change from previous period]

Item	1981	1982	1983	1984 I	1984 II
Unadjusted:					
Index number	99.5	109.8	114.2	117.2	118.8
Percentage change	9.7	10.4	4.0	7	1.4
Adjusted:					
Index number	100.7	109.8	112.4	114.4	114.9
Percentage change	12.5	9.0	2.4	1	5

TABLE IV.—EFFECTIVE EXCHANGE RATES OF THE U.S. DOLLAR—UNADJUSTED AND ADJUSTED FOR INFLATION DIFFERENTIAL—Continued

Note: The foreign currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in these other nations, thus a decline in this measure suggests an increase in U.S. price competitiveness.

Sources: International Economic Review, July 1984; and World Financial Markets, Morgan Guaranty Trust Co. of New York.

The problem of an overvalued dollar has been exacerbated by the use of export subsidies by other nations. While the United States has responded to these competitive pressures by increasing the amount of government direct and guaranteed export credit, it appears that this policy has not been sufficiently successful in stemming the decline of the U.S. market share in major world markets.

The years since 1980 have also witnessed a period of serious decline in the international economy. Weak economic growth in the United States until very recently has been paralleled by similar problems affecting industrialized nations. In addition, many nations of the Third World have faced economic crisis during the early years of this decade.

The rapid expansion of demand for U.S. agricultural commodities and products which occurred in 1970s, in part as a result of the easy availability of commercial credit during a period of worldwide economic growth, has collapsed in recent years as credit has contracted in response to a worsened international economic situation. The total debt of the developing countries has nearly doubled since 1979, from $472.1 billion to a projected level of $820 billion in 1984.

TABLE V.—LESS-DEVELOPED WORLD: TOTAL DEBT, LONG- AND SHORT-TERM COMPONENTS

[In billions of dollars]

Item	1979	1980	1981	1982	1983	1984
Debt:						
Developing countries total	472.1	559.9	646.5	724.8	767.6	820.0
Long term	396.3	453.4	518.4	576.6	741.4	718.5
Short term	75.8	106.5	128.1	148.2	126.2	101.5
Africa total	52.3	59.3	65.2	76.4	82.3	88.0
Long term	48.2	54.3	58.0	66.8	73.3	79.0
Short term	4.1	5.0	7.2	9.6	9.1	9.0
Asia total	110.1	133.9	151.6	176.4	193.7	212.0
Long term	89.2	105.4	120.2	139.2	158.0	177.9
Short term	20.9	28.5	31.4	37.2	35.6	34.1
Latin America total	185.3	224.1	283.2	323.9	336.5	354.5
Long term	159.0	180.9	224.6	249.1	284.4	317.3
Short term	26.3	43.3	58.6	74.8	52.2	37.2

[1] Forecast.

Source: Agricultural Outlook, USDA, July 1984.

The cost of the current Third World economic crisis has not been borne solely by the developing nations. As a result of the Third World recession, total U.S. exports of all goods and services to developing nations have declined by $18.2 billion in the period 1980 through 1983, at a loss of 1.1 million U.S. export sector jobs, and $14 billion in U.S. investment income. While the U.S. has responded to the problem of Third World debt through the expansion of government direct and guaranteed export credit, the economic situation in many developing countries continues to deteriorate.

While there may be agreement in regard to some of the significant factors which have contributed to the decline in U.S. agricultural exports in recent years, no comprehensive consensus on appropriate government export policy has yet emerged. The agricultural community has generally welcomed the federal government's expanded use of export credit. However, there is reason to believe that such credit programs, while certainly much needed, have not been as effective as had been hoped for.

Not all of the problems which have contributed to the current U.S. agricultural export situation can be addressed through agricultural legislation. The high value of the dollar, the continuing growth of the federal budget deficit, Third World debt, soft international demand: these are all factors which lie in large part outside of the benchmarks of conventional farm policy.

Since it has not yet been possible to draw the many threads together to form a single, comprehensive policy designed to maintain and expand U.S. exports of agricultural commodities and products, the Committee is of the view that a national export policy Commission, widely representative of the U.S. agricultural sector and including Members of Congress representing Committees of jurisdiction in respect to the broad sweep of international economic policy, should be established so that this important work may begin.

The Committee on Agriculture will be laboring to perform its share of this responsibility in its consideration of the 1985 farm bill through changes in legislation on those agricultural export programs under its jurisidiction. Its work in this regard could be much assisted by recommendations made by an independent export Commission. The sheer productivity of U.S. agriculture has demonstrated that American farmers are doing all that they can to improve the performance of U.S. agriculture in international markets. It is now time to evaluate what changes in agricultural export policy are necessary to assist in meeting this objective.

The study Commission would be financed by contributions from private sources—individuals, corporations, foundations, and other entities. To avoid any possible appearance of a conflict of interest in the appointment of members of the Commission, H. J. Res. 600 provides that contributions could be received only after appointments to the Commission have been completed. Also to assure that the financing would be drawn from a truly broad base of support, the resolution limits the amount that could be received from any single source to 5 percent of the Commission's budget. As a guideline in accepting contributions, the Secretary is encouraged to limit

contributions from any source to a maximum annual amount of $25,000.

Finally, as a backup in the event that private contributions are not sufficient to ensure that the Commission is adequately funded to do a thorough job in fulfilling its mandate, the resolution authorizes the Secretary of Agriculture to use the funds of the Community Credit Corporation up to a maximum amount of $1,000,000. Under this authority the funds of the Commodity Credit Corporation would be available to finance the initial organizational meetings of the Commission if they should occur before contributions sufficient to cover these expenses has been received. Once such contributions were received, it is expected that they would be used to reimburse the Commodity Credit Corporation for its advances.

The Commission believes that there is a broad base of support for the Commission; and, based on testimony received at the hearing, there is sufficient interest in the private agricultural sector to meet the financing needs of the Commission and has included the provision relating to the use of Commodity Credit Corporation funds only as a backup.

Section-by-Section Analysis

H.J. Res 600 amends title XII of the Agriculture and Food Act of 1981 to add a new subtitle C as follows (the sections discussed below refer to the sections in new subtitle C):

SHORT TITLE

Section 1217, as added to the Agriculture and Food Act of 1981, states that subtitle C may be cited as the "Agricultural Trade and Export Policy Commission Act."

FINDINGS AND DECLARATION OF POLICY

Section 1218. Subsection (a) states as a Congressional finding that

(1) the economic well-being of the Nation's agricultural industry is directly related to its ability to compete in international markets; and

(2) a thorough examination of agriculture-related trade and export policies, programs, and practices of the United States is needed to ensure that such policies, programs, and practices increase the competitiveness of United States agricultural commodities and products in international markets. By competitiveness in international markets it is intended to refer to obtaining for the United States a larger percentage of world markets in commercial sales abroad. In no way is it intended that the focus of the Commission is to be on reduction of loan rates under the domestic price support program or otherwise on dismantling the domestic programs which have provided a safety net to producers of agricultural commodities.

Subsection (b) declares that it is the policy of Congress to expand international trade in United States agricultural commodities and products and to develop, maintain, and expand markets for United States agricultural exports.

ESTABLISHMENT

Section 1219. Subsection (a) establishes a National Commission on Agricultural Trade and Export Policy to conduct a study of the agriculture-related trade and export policies, programs, and practices of the United States.

Subsection (b) provides that the Commission shall consist of the ex officio congressional members specified in subsection (c) and twenty-three members appointed or designated by the President. These twenty-three would be selected as follows:

(1) The President would select three members from the Executive branch who would serve in an ex officio capacity without voting rights; and

(2) The President pro tempore of the Senate and the Speaker of the House of Representatives would each select ten members to represent industries that are directly affected by agriculture-related trade and export policies, programs, and practices of the United States, including, but not limited to, the following:

(A) producers of major agricultural commodities in the United States;

(B) processors and refiners of United States agricultural commodities;

(C) exporters, transporters, and shippers of United States agricultural commodities and products to foreign countries;

(D) suppliers of production equipment and materials to United States farmers;

(E) providers of financing and credit for domestic and export agricultural purposes; and

(F) organizations representing general farm and rural interests in the United States.

In selecting members to represent producers of major agricultural commodities, the Committee on Agriculture encourages that, to the extent feasible, there be represented producers of (a) animal products, (b) cotton, (c) feed grains, (d) oilseeds, (e) peanuts, (f) rice, (g) tobacco, (h) wheat, (i) fruits, nuts, and vegetables, and (j) forest products.

Subsection (c) provides that the ex officio congressional members shall be the chairmen and ranking minority members of the House Committee on Agriculture, the Senate Committee on Agriculture, Nutrition, and Forestry, the House Committee on Foreign Affairs, the Senate Committee on Foreign Relations, the House Committee on Ways and Means, and the Senate Committee on Finance, who shall have the same voting rights as the members of the Commission selected and appointed under the provisions of subsection (b)(2). The subsection authorizes the chairmen and ranking minority members to designate other members of their respective committees to serve in their stead as members of the Commission.

Subsection (d) provides that a vacancy in the Commission shall be filled in the manner in which the original appointment was made.

Subsection (e) provides for the Commission to elect a chairman from among the twenty members of the Commission selected by the President pro tempore of the Senate and the Speaker of the House and appointed or designated under the provisions of subsection (b)(2).

Subsection (f) provides for the Commission to meet at the call of the chairman or a majority of the Commission.

CONDUCT OF STUDY

Section 1220 provides for the Commission to study the agriculture-related trade and export policies, programs, and practices of the United States and the international and domestic factors affecting such policies, programs, and practices, including the intergovernmental activities of the United States that affect the formulation of policies. In conducting the study, the Commission is required, among other things, to consider—

(1) the effectiveness of existing agricultual export assistance programs, and the manner in which they can be improved;

(2) new export assistance programs that should be considered, and the conditions under which they can be implemented;

(3) practices of foreign countries that impede the export of United States agricultural commodities and products, and appropriate responses for the United States;

(4) the effectiveness of the trade agreements program of the United States with respect to agriculture-related trade and exports, and the manner in which it can be improved;

(5) international economic trends that affect agricultural exports, and the manner in which the United States can best adjust its policies, programs, and practices to meet changing economic conditions;

(6) potential areas of conflict and compatibility between international agricultural trade and foreign food assistance programs, and the manner in which any conflict can be resolved; and

(7) the relationship between international agricultural trade and foreign economic development and food programs, and the manner in which they can be made more compatible.

In this connection, in order to understand better why the United States has lost export markets in recent years, it would be helpful for the Commission to obtain from the Department of Agriculture information on (1) an historical comparison of the export prices quoted by the United States and its major competitors; (2) an analysis of the terms of sale, including freight and financing rates, typically offered by the United States and its competitors; (3) the role of (foreign) government-sponsored agencies in merchandising grain produced in those countries; and (4) the number and nature of long-term agricultural sales agreements employed by other countries. In addition, in considering the matter referred to in item (7) above; the Committee suggests that the Commission obtain comments from the voluntary food and development agencies.

RECOMMENDATIONS AND REPORTS

Section 1221. Subsection (a) requires the Commission to make findings and develop recommendations for consideration by the

President and Congress with respect to the agriculture-related trade and export policies, programs, and practices of the United States, and the manner in which such policies, programs, and practices can be improved to better develop, maintain, and expand markets for United States agricultural exports.

Subsection (b) requires the Commission to submit to the President and Congress—

(1) a report containing its initial findings and recommendations by March 31, 1985,

(2) such additional interim reports on its work as may be requested by the chairman of any of the Committees that are represented on the Commission, and

(3) a report containing the final results of its study and its recommendations therefrom by July 1, 1986.

ADMINISTRATION

Section 1222. Subsection (a) requires that the heads of Executive agencies, the General Accounting Office, the International Trade Commission, and the Congressional Budget Office, to the extent permitted by law, provide the Commission such information as it may require in carrying out its duties and functions.

Subsection (b) requires that members of the Commission serve without any additional compensation for work on the Commission, except that members appointed from among private citizens of the United States may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons serving intermittently in the government service.

Subsection (c) authorizes the chairman of the Commission to appoint and fix the compensation of a director, and appoint and fix the compensation of such additional staff personnel as the Commission determines necessary to carry out its duties and functions, without regard to the provisions of Title 5, United States Code, governing appointments in the competitive service and without regard to the provisions of chapter 51 and subchapter III of chapter 53 of title 5 relating to classification and General Schedule pay rates. This authority may be exercised only to the extent that there are sufficient funds available to the Commission in advance under section 1223 to cover such expenses and is subject to such rules as may be adopted by the Commission.

Subsection (d) requires the Secretary of Agriculture to furnish the Commission upon its request with such personnel and support services as are necessary to assist the Commission in carrying out its functions.

Subsection (e) authorizes the heads of other Executive agencies and the General Accounting Office, upon request of the Commission, to furnish the Commission with such personnel and support services as the head of the agency or office and the chairman of the Commission agree are necessary to assist the Commission in carrying out its functions.

Subsection (f) provides that the Commission shall not be required to pay or reimburse any agency or office for personnel and support services provided under this section.

Subsection (g) requires the Secretary of Agriculture to maintain such financial records as will fully disclose the disposition of any funds that may be at the disposal of the Commission and the nature and extent of its activities. The subsection guarantees the Comptroller General, or any of the Comptroller General's authorized representatives, access to such records for the purpose of audit and examination.

Subsection (h) exempts the Commission from certain provisions of the Federal Advisory Committee Act. This includes section 7(d) (relative to rates of pay of members, staffs, and consultants), section 10(e) (requiring the Federal government employee to chair or attend each meeting and authorizing such person to adjourn any meeting of an advisory committee), section 10(f) (prohibiting advisory committees from holding meetings except with approval of a Federal government employee), and section 14 (relating to termination, renewal, and continuation of advisory committees) of the Federal Advisory Committee Act.

Subsection (i) exempts the Commission from the requirements of sections 4301 through 4305 of title 5, United States Code (relating to performance appraisal).

PUBLIC SUPPORT

Section 1223. Subsection (a) authorizes the Secretary of Agriculture to receive, from persons, corporations, foundations, and other groups and entities within the United States, contributions of money and services to assist the Commisison in carrying out its functions. To assure that appointments of private persons to the Commission would in no way be based on contributions to the Commission, the resolution provides that contributions may be received only after appointments to the Commission have been completed. Any money contributed under this section would be available to the Commission for the payment of salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle. In no event may the money and services from any one person, corporation, foundation, or other group or entity exceed 5 percent of the Commission's total budget. To help ensure that there is a broad base of contributors, the Committee would encourage the Secretary to adopt as a guideline that no more than $25,000 per year be collected as a contribution from any one source.

Subsection (b) provides as a backup that if the money and services contributed under subsection (a) are insufficient for payment of Commission salaries, travel expenses, per diem, and other expenses incurred by the Commission, the Secretary of Agriculture may use the funds of the Commodity Credit Corporation for such purposes. Such payments may not, however, exceed a total of $1,000,000.

Since the organizational meeting of the Commission may occur before any contributions have been received, the Secretary could use this authority to enable the Commission to organize and begin operating. As soon as contributions are receive, they would be used to reimburse the Corporation for any of its funds that have been advanced to the Commission. The Committee fully expects that there is sufficient support among the agricultural sector to fund

the Commission's expenses in their entirety; it is unlikely that this authority would be required to be used, except as an interim measure.

Subsection (c) requires the Secretary of Agriculture to keep, and make available for public inspection during normal business hours, records that fully disclose a complete list of every person, group, and entity making a contribution under this section, the address of the contributor, the amount and type of such contribution, and the date the contribution was made.

Subsection (d) requires that any sums available to the Commission under this section that remain unobligated upon termination of the Commission shall be deposited in the Treasury as miscellaneous receipts.

TERMINATION

Section 1224. This section provides for termination of the Commission sixty days after the transmission of its final report to the President and Congress.

COMMITTEE CONSIDERATION

(A) HEARINGS

A joint hearing was held July 26, 1984, on H.J. Res. 600 by the Committee on Agriculture, the Committee on Foreign Affairs, and the Committee on Ways and Means. Testimony at the hearing was received from Messrs. Alex C. McGregor for The Fertilizer Institute; John Leuthold for the National Association of Wheat Growers; Varel Bailey for the National Corn Growers Association; Patrick B. Healy for the National Milk Producers Federation; D. M. Chartier for Farmland Industries; George Atkinson for American Milk Producers, Inc.; J. Stephen Gabbert, Rice Millers Association; Glenn Tussey of the American Farm Bureau Federation; Robert M. Frederick for the National Grange; and David Senter for the American Agricultural Movement.

With one exception, the witnesses all testified in strong support for H.J. Res. 600. In their statements they discussed the decline in United States farm exports and its overall market share, and the consequent increases and projections of increases in domestic surpluses of farm commodities. They referred to the statistics that are included in the Purpose and Need section of this report. Among the factors that they testified have contributed to this decline are the value of the dollar, world recession, the global debt situation, growing protectionism and unfair trade practices, such as export subsidies, by our competitors, political decisions such as past grain embargoes, and certain legislation such as cargo preference requirements. They expressed the need for new ideas that would help overhaul United States farm export policy and viewed the Commission as an instrument that had the potential of suggesting useful changes in export policy. Many witnesses also expressed the willingness of their organizations to contribute financially to the success of the Commission.

The witness for the National Association of Wheat Growers commented that the proposed Commission would be quite different from other government commissions in that it would be privately funded. He stated that those who have the most to gain through a successful Commission would be providing the financial resources for its operation. He also stated that the Commission would be composed of industries directly affected by agricultural trade and export policy and that H.J. Res. 600 assures that it would be well balanced without undue influence from any one particular sector.

The National Corn Growers Association stressed that the association fully supports the creation of the Commission; its composition should include former officials of the major commodity groups and agricultural organizations concerned with expanding U.S. agricultural exports; and the work of the national Commission should not exclude the filing of dissenting views. The National Council of Farmer Cooperatives in a statement for the record agreed with these recommendations and stressed that it is important that there be safeguards to preclude undue influence on Commission work by those making financial contributions.

The Rice Millers Association stated that swift passage of H.J. Res. 600 will be evidence that Congress is prepared to begin seriously dealing with our agricultural export crisis in a rational, meaningful way.

The representative of the Fertilizer Institute testified as to the 23 percent sales drop the industry has suffered in the last two years as a result of U.S. farm policy—and the consequent plant closings and layoffs, the likes of which have not been seen in the industry since the Depression. He explained that the Institute has decided for the first time to become directly involved in the formulation of agricultural policy and supports the creation of the National Commission as a means of building a foundation for more productive, better coordinated future programs.

The representative of Farmland Industries stated that the markets we have developed over the past decade are approaching a saturation point and that new potential for growth is among the developing nations where caloric intake is low and where indigenous production is not likely to meet requirements of their population. He recognized, however, that unfortunately most of these nations are presently saddled with a debt structure that sharply curtails their ability to import needed agricultural products and stated that the Commission could well review the steps that can be taken to deal with that problem.

He also reviewed additional questions which needed to be considered: whether the GATT is still appropriate to the conditions of the future; whether the export credit program and the Public Law 480 program are as effective as they may be; what should be the approaches to deal with the consequences of a strong dollar; and finally, whether the problem is one of expanding the U.S. share of the existing global market or rather to work together with other countries to expand the total global market for agricultural commodities. He expressed the view that if the Commission were established soon enough, it could provide Congress with useful information for the 1985 farm bill.

The representative of the National Grange likewise stated that in the long term, expansion of U.S. agricultural exports will depend on expanding world demand, that the study should not be limited

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to just stronger emphasis on current programs, but should embrace all phases of economic development of the develping countries, that markets developed in this manner are lasting markets for U.S. products. He emphasized that the study must be conducted across a wide spectrum of U.S. policy, all of which impact on U.S. exports.

The representative from the Farm Bureau agreed that developing countries suffering from financial and economic problems are the best potential customers for increased U.S. farm exports, that there is no shortage of problems facing U.S. agricultural exports, and new ideas are urgently needed to cope with these complex issues. He specifically commented on the prospect of continued subsidized competition from the European Economic Community and its efforts to become more self-reliant in agricultural production, the need for better access to the Japanese market for certain commodities, and the financial crisis that is hurting U.S. agricultural sales in developing countries.

The witness for the National Milk Producers Federation stated that the basic problem is that the United States does not employ the same rules of competition used by others, that the United States dairy industry is the largest in the non-Communist world, and that its efficiency matches or exceeds that of any other country. He claimed that United States dairy products are not competitive in foreign markets largely because of export subsidy programs used by other trading nations and, in particular, criticized the failure of the United States to control imports of casein which he claims have increased substantially the cost of the dairy price support program.

The witness for the Associated Milk Producers stated that it is in the best national interest that we export our dairy products and that AMPI had formed a joint venture with sister cooperatives Mid America Dairymen and Dairymen Inc. to explore the potential for the exportation of dairy products. He also expressed concern regarding subsidized imports of dairy products from abroad.

The represenative of the American Agriculture Movement spoke in opposition to the resolution. Specifically, he opposed the provision which calls for an early report by March 31, 1985, claiming that at best the Commission would only be getting organized by March of next year, and that an adequate report could not be prepared by that time. He also expressed concern with the manner of funding the Commission, stated his fear that certain organizations through their contributions to the program would be able to control the selection of members and direct the work of the Commission.

In the course of discussion Congressman Pease of the Ways and Means Committee expressed concern about the policy of increasing exports as a means of increasing farm income and in the process using up our soil and nutrients in our soil and asked whether we would be better off concentrating on more adequate prices for commodities on the domestic market. The witness for the National Corn Growers Association stated that we do need to safeguard our natural resources, but by the same token the U.S. farmer is truly dependent on world markets.

Mr. Pease further inquired how can we encourage other countries to take more exports if at the same time we erect barriers

against their exports to the United States. The National Milk Producers Federation witness stated its view that we should not import commodities that we are producing in surplus in this country today, that no other country follows such a policy, that it is difficult to ask dairy farmers to take a reduction in support and cut back their production while at the same time imports of casein are being received from abroad. The other witnesses stated that this was a difficult issue and one that the Commission should pursue.

Congressman Bereuter of the Foreign Affairs Committee suggested that we ought to look at all the practices in this country that are counterproductive to expansion of exports, in addition to the value of the dollar. Some of the witnesses agreed that often our policies are at cross-purposes. Exception was taken again by the witness for the National Milk Producers Federation. Mr. Bereuter then commented that the report of the Commission should provide a consensus of the interested parties that should serve as a rallying point for those who wish to improve farm exports and that in the final analysis, if there are to be any results, it will then be up to Congress and the Committees of Jurisdiction.

Congressman English stated that it is difficult for the U.S. to respond to subsidies and trade barriers imposed by other countries because of the squabbling that takes place within the Administration among the various agencies in the government that are involved in developing a trade policy.

Mr. English asked each of the witnesses whether their organization was willing to commit itself to any specific level of contribution to the work of the Commission. The various witnesses agreed that it was premature, that until the legislation had passed and they knew what the budget of the Commission would be, it was impossible for them to provide commitments as to any specific sums. Further, many stated that the issue had not yet been discussed with their governing boards.

Mr. English also expressed a concern whether the Commission could be organized in time to provide information in the preliminary report required by the resolution to be submitted by March 31, 1985. The witnesses agreed that it was a challenge, but that the stakes were sufficiently high that the work could well be accomplished by that time. Mr. Healy mentioned the fact that the Dairy and Tobacco Adjustment Act of 1983 was enacted into law on November 29, 1983, providing for a Dairy Promotion Board, and since that time the order was issued, the Board members were nominated and appointed, and a contract signed for accomplishing the work of the Board, and based on that experience he thought that the Commission could well make a response by March.

Mr. English also asked the witnesses whether they were willing to commit their organizations to support proposals that may be issued by the Commission. The witnesses demurred, stating that until the proposals were developed and studied, no such commitment could be made.

Congressman Coleman of Missouri stated his view that a significant underlying issue and an issue that everyone can agree on is the impact on exports of the value of the dollar—and its relationship with other countries—and the need to consider what must be done monetarily to bring it into a more proper relationship.

Congressman Bedell stated his view that the first thing that should be done if we are losing markets is to find out why. He stated he did not have information that would provide a satisfactory answer to that question. Some contended that one of the primary reasons is the hard dollar. On the other hand, in testimony at a recent subcommittee hearing, the Nebraska Wheat Growers Association provided information indicating that U.S. world prices were in fact lower than the prices of other countries and that the reason for the loss in markets may be attributable to the fact that other countries had entered into long-term grain agreements with many importing countries, which has not been the policy of the United States. Mr. Bedell emphasized the need to know whether our export prices are in fact higher or lower than our competitors', whether our terms of sale are better or worse, or whether the problem lies with our merchandising techniques or the quality of our product.

Congressman Glickman expressed concern that the resolution may be a stalking horse for an effort to reduce commodity prices. He also stated that he wanted to avoid any conflict of interest in the makeup of the Commission and to that end suggested the possibility of appointing the commissioners before any contributions were accepted. The Chairman agreed that no funds should be solicited until the commissioners had been named.

Congressman Thomas of Georgia emphasized that our producers cannot compete against the treasuries of foreign countries and that the Commission should in its work endeavor to expose those practices. He also stated that this country should take a look at its policy of providing agricultural research and technical assistance to foreign countries for use in developing agricultural production that competes in world markets with United States exports.

Several statements were submitted for the record by organizations that did not appear at the hearing. The National Council of Farmer Cooperatives, the National Cotton Council, the Cooperative League, the American Feed Manufacturers Association, American Soybean Association, and the National Association of State Departments of Agriculture in their statements all supported establishment of the Commission and the provisions of H.J. Res. 600.

The National Cotton Council suggested that a provision should be made for Commission reports to include minority views, and while the Commission may make broad policy recommendations, some recommendations should be specific and tailored to fit individual commodities.

The Cooperative League urged consideration of the economic potential of the Food for Peace programs through increases in monetization of programs by U.S. voluntary agencies and the Cooperative League.

Several organizations expressed reservations regarding the resolution in their statements for the record. They included the National Farmers Union, Bread for the World, Interfaith Action for Economic Justice, and the National Democratic Policy Committee (not affiliated with the Democratic Party). The National Farmers Union expressed the view that one of the goals in writing a new farm bill in 1985 should be to establish long-term agricultural policies and that it did not see the establishment of the Commission helping to

achieve that goal. It stated that Congress should exercise its responsibility in providing in 1985 a clear and coherent agricultural trade policy and not wait on the report of yet another national Commission.

Bread for the World and Interfaith Action for Economic Justice both stated that the underlying issue is misplaced and should be the economic well-being of the nation's agricultural industry, particularly its structure, and conservation policy. They also expressed concern that the Commission would consist entirely of representatives of private trade interests and would not be sufficiently diverse in its membership. Bread for the World stated that action should be taken in the context of the 1985 farm bill rather than providing for yet another study Commission.

(B) FULL COMMITTEE CONSIDERATION

The Committee on Agriculture met on Tuesday, July 31, 1984 to mark up H.J. Res. 600.

Mr. English proposed an amendment to change the reference in the findings from increasing the competitiveness of United States agricultural commodities and products to increasing the ability to sell such commodities and products. Mr. English stated that he wished to make clear that the focus of the Commission was not to be cutting loan rates under the domestic price support programs, but rather on selling more commodities in foreign markets. The Chairman stated, as one of the principal authors of the bill, that in no way was it the intention to have the bill as a subterfuge for lowering loan rates.

Mr. Foley suggested as an alternative that the term "competitiveness in selling" be used so as to make clear that the focus of the Commission would be on sales at prices that would compete in cash markets and not on concessional transactions such as Public Law 480. He further stated his belief that the Commission should address itself to increasing sales abroad and hopefully sales at a profit.

Mr. Bedell stated that price may not be the factor that has been entirely responsible for the reduction in United States exports, but rather long-term agreements that have been signed by exporting countries that compete with the United States in sales abroad. Mr. Foley suggested that the word "compete" as used in the bill is really directed at a whole range of factors that relate to the ability of the United States to sell products overseas. It was agreed that this was the case and that selling more and obtaining for the United States a larger percentage of world markets is really the focus of the resolution. The amendment by Mr. English was then defeated on a voice vote.

Mr. English proposed a second amendment, to require that six of the ten members of the Commission selected by the President pro tempore of the Senate and six of the ten members selected by the Speaker of the House must be active producers of the agricultural commodities which are normally exported and that these producers shall be selected so as to afford representation to producers of animal products, cotton, feed grains, oilseeds, rice, tobacco, wheat, and fruits, nuts, and vegetables. He stated that it is important for

the credibility of the Commission for each of the producer groups to be represented on the Commission. His amendment also would make clear that the balance of the Commission would not have to be selected from each of the remaining groups stated in the resolution, but from any of the remainder.

Mr. Huckaby expressed concern that under the amendment only eight members of the Commission would be drawn from the private trade and would have the expertise that arises from day-to-day experience with the export business. Mr. English stated his belief that many producers likewise have this type of export background.

The Chairman expressed the view that he did not disagree with the thrust of the amendment, except for the fact that it would disrupt the balance that had been worked out in the resolution so as to cover all sectors concerned with agricultural exports. He also stated that producer representatives do not necessarily have the same views on the issue. Mr. Madigan pointed out that the amendment required six of the ten members to be agricultural producers, but that they were required to represent eight different agricultural sectors. In response, Mr. English stated that a producers could well represent more than one commodity group. Mr. Madigan stated that in hearings of the Committee that he attended, he often noticed disagreement among the different producer groups and that in his view it might be difficult to select a person who might represent more than one group. He also stated that major shippers are often organized as co-ops made up of producers and that the co-ops were in agreement as to export policy with the producers whom they represented.

Mr. Foley stated his view that the Commission should be broadly based and that, in any event, the Commission merely made recommendations and that Congress and the Executive would be the judge of whether the recommendations are well-founded and constructive. He stated his concern about restructuring the membership and that the Commission obviously would be monitored by the relevant congressional Committees. The amendment was defeated by a rollcall vote of 8 to 28.

Mr. Penny then proposed report language that would encourage the selection of Commission members to be made in such a manner as to best represent producers of the named agricultural commodities. The Chairman suggested that peanuts be added to the list of commodities, and Mr. Emerson suggested the inclusion of a reference to forest products. It was agreed at Mr. Foley's suggestion that this should be done, to the extent feasible, and that the list of commodities represented should be those commodities that are being exported. The proposal was agreed to.

Mr. English then offered a third amendment that would delete from the resolution the provision for obtaining contributions from private groups as necessary to assist the Commission in carrying out its duties. In lieu thereof, the amendment would authorize the Secretary to use the funds of the Commodity Credit Corporation in an amoiunt not to exceed $1,000,000 for this purpose. Mr. English expressed concern that the members of the Commission may be tied closely to those people who are making the contributions, and its work product may be influenced by those who make substantial contributions. He stated that at the hearing he questioned the witnesses who represented many of the groups in support of the resolution as to the amount the group was willing to contribute and was unable to obtain any specific information. He also stated that in a study that he had done, the average cost for such a Commission for the period of time involved in the resolution is somewhere between $1,000,000 and $1,500,000, that this represents a substantial sum of money, and that his amendment was necessary to assure that the Commission would be adequately funded.

The Chairman stated that the Speaker of the House and the President pro tempore of the Senate would be making the membership selection, and he was certain that they would be guided by the well-being of agriculture and would not be influenced by the contributions that may be made. In addition, he stated that he was aware of persons who were willing to contribute towards the cost of the Commission with no interest as to who might be appointed to the Commission.

Mr. Foley suggested as an alternative an amendment that would provide for accepting contributions only after the appointment of members of the Commission had been completed. In addition, he proposed that if the contributions were insufficient, the amendment would authorize the Secretary to use the funds of the Commodity Credit Corporation in an amount not to exceed $1,000,000 as a backup. Finally, he incorporated in his amendment a proposal made by Mr. Glickman that would limit the contributions that could be received from any particular person or group to a maximum of 5 percent of the Commission's total budget. Mr. Foley stated that this would assure that contributions would not in any way be construed as being tied in with appointments of Commission members and avoid the possibility of the appearance of any conflict of interest. In addition, it would ensure that there was no pressure on the Secretary to complete the Commission's undertaking by accepting donations that might not otherwise be acceptable merely so that the work of the Commission could be completed. Mr. Foley stated that this proposal would assure that the Commission could obtain adequate staff to do its job properly in accordance with its mandate. The substitute amendment was agreed to by a voice vote.

It was also agreed to include language in the report that in order to ensure a broad-based number of contributors, the Secretary should follow the general guideline of not accepting more than $25,000 from any contributor for each year during the period that the Commission is in operation. Mr. Foley stated that he was confident that there would be sufficient acceptable private contributions to fund the Commission, that the Commission has been perceived as a worth-while effort by the agricultural community and by some foundations, and that the provisions authorizing the use of Commodity Credit Corporation funds was intended as a backup.

Mr. Bedell proposed an amendment that related to the conduct of the study by the Commission. His amendment provided that in conducting the study, the Commission would consider the items listed in the joint resolution among other things and would not necessarily be limited to those that were so listed. The amendment was agreed to by voice vote.

Mr. Daschle then proposed an amendment that the Commission should consider the effectiveness of international food and development assistance and the manner in which both can be improved. He stated that when the Commission considered exports, it should also consider international food assistance. Mr. Bedell added the comment that the bill was intended to study how the United States can become more competitive or sell more competitively in world markets and not how the United States could do a better job of donating our food products abroad—the latter was a separate issue.

Mr. Foley expressed concern that the effectiveness of our international aid programs involves an entirely new channel of investigation and is not an issue for which the Commission is particularly suited, that this is an issue that is worthy of a separate commission.

The chairman stated that the Select Committee on Hunger is addressing that very issue. In addition, Mr. Madigan pointed out that the Carlucci Commission has just completed its work and released a report on the very matter which is the subject of Mr. Daschle's proposal, that this commission has been in existence for a two-year period, organized under the aegis of the Secretary of State and made up of private members and Members of the House and the Senate.

Mr. Foley then proposed that the seventh factor in Section 1220 be revised. In H.J. Res. 600 as introduced, that factor is stated as "the relationship between international trade and foreign economic development programs, and the manner in which they can be made more compatible." He proposed changing the term "foreign economic development programs" to read "foreign economic development and food programs." The result of the amendment was to require an examination of the relationship between economic development and food programs and United States commercial export policies. The amendment was agreed to by voice vote. It was also agreed that the Commission should seek input from the voluntary food and development agencies for this purpose.

The Committee then ordered H.J. Res. 600 reported to the House with a recommendation that it do pass, by a voice vote in the presence of a quorum.

ADMINISTRATION POSITION

At the time of filing this report, the Committee on Agriculture had not received the views of the U.S. Department of Agriculture on the joint resolution.

POSITION OF THE COMMITTEE ON FOREIGN AFFAIRS

The following letter was received from the House Committee on Foreign Affairs:

CONGRESS OF THE UNITED STATES,
COMMITTEE ON FOREIGN AFFAIRS,
HOUSE OF REPRESENTATIVES,
Washington, DC, August 2, 1984.

Hon. E (KIKA) DE LA GARZA,
Chairman, House Committee on Agriculture,
Washington, DC.

DEAR MR. CHAIRMAN: Please be advised that following our joint hearing on H.J. Res. 600, cited as the "Agricultural Trade and Export Policy Commission Act", we have examined the bill and the amendments thereto as ordered reported by the Committee on Agriculture.

In order to assist in expeditious action on this bill, and keeping in mind the continuing cooperation between our two Committees, I will not object to consideration of H.J. Res. 600 by the House without further action by the Committee on Foreign Affairs. I do so without prejudice to the jurisdiction of this Committee in this matter, and would appreciate your including this letter in your report on H.J. Res. 600.

With best wishes, I am

Sincerely yours,

DANTE B. FASCELL, *Chairman.*

BUDGET ACT COMPLIANCE (SECTION 308 AND SECTION 403)

The provisions of clause 2(l)(3)(B) of Rule XI of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 (relating to estimates of new budget authority or new or increased tax expenditures) are not considered applicable. The estimate and comparison prepared by the Director of the Congressional Budget Office under clause 2(l)(3)(C) of Rule XI of the Rules of the House of Representatives and section 403 of the Congressional Budget Act of 1974 submitted to the Committee prior to the filing of this report are as follows:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, August 3, 1984.

Hon. E DE LA GARZA,
Chairman, Committee on Agriculture,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.J. Res. 600, the Agricultural Trade and Export Policy Commission Act, as ordered reported by the House Committee on Agriculture, July 31, 1984.

This joint resolution would establish a National Commission on Agricultural Trade and Export Policy to conduct a study of the agriculture-related trade and export policies, programs and practices of the United States. The commission would be required to submit an initial report by March 31, 1985 and a final report on its findings and recommendations by July 1, 1986. The commission would be terminated 60 days after the transmission of its final report.

H.J. Res. 600 would authorize the Secretary of Agriculture to receive contributions of money and services to assist the commission

in carrying out its functions. It is the Committee's intent that the commission be funded through these public contributions. However, if these contributions were insufficient to pay the commission's expenses, the Secretary would be authorized to use up to $1 million in Commodity Credit Corporation funds for these purposes. H.J. Res. 600 also authorizes executive agencies and the General Accounting Office to assist the commission by furnishing it with personnel and support services. It is expected that costs of such personnel and services would not be substantial. Thus, the cost of this joint resolution could be as much as $1 million, or, with sufficient public contributions, the federal cost could be negligible.

Enactment of this joint resolution would not affect the budget of state or local governments.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

RUDOLPH G. PENNER, *Director.*

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(l)(4) of Rule XI of the Rules of the House of Representatives, the Committee estimates that enactment of H.J. Res. 600 will have no inflationary impact on the national economy.

OVERSIGHT STATEMENT

No summary of oversight findings and recommendations made by the Committee on Government Operations under clause 2(b)(2) of Rule X of the Rules of the House of Representatives was available to the Committee with reference to the subject matter specifically addressed by H.J. Res. 600.

No specific oversight activities other than the hearings detailed in this report were conducted by the Committee within the definition of clause 2(b)(1) of Rule X of the Rules of the House of Representatives.

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

[Public Law 97-98, 97th Cong.]

AN ACT To provide price and income protection for framers, assure consumers an abundance of food and fiber at reasonable prices, continue food assistance to low-income households, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Agriculture and Food Act of 1981".

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TITLE XII—AGRICULTURAL EXPORTS AND PUBLIC LAW 480

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"SUBTITLE C—AGRICULTURAL TRADE AND EXPORT POLICY COMMISSION ACT

"SHORT TITLE

"SEC. 1217. This subtitle may be cited as the 'Agricultural Trade and Export Policy Commission Act'.

"FINDINGS AND DECLARATION OF POLICY

"SEC. 1218. (a) Congress finds that—

"(1) the economic well-being of the Nation's agricultural industry is directly related to its ability to compete in international markets; and

"(2) a thorough examination of agriculture-related trade and export policies, programs, and practices of the United States is needed to ensure that such policies, programs, and practices increase the competitiveness of United States agricultural commodities and products in international markets.

"(b) It is hereby declared to be the policy of Congress to expand international trade in United States agricultural commodities and products and to develop, maintain, and expand markets for United States agricultural exports.

"ESTABLISHMENT

"SEC. 1219. (a) There is established a National Commission on Agricultural Trade and Export Policy to conduct a study of the agriculture-related trade and export polices, programs, and practices of the United States.

"(b) In addition to the ex officio congressional members specified in subsection (c) of this section, the Commission shall be composed of twenty-three members appointed or designated by the President and selected as follows:

"(1) The President shall select three members from among officers or employees of the Executive branch who shall serve in an ex officio capacity without voting rights; and

"(2) The President pro tempore of the Senate and the Speaker of the House of Representatives shall each select ten members from among private citizens of the United States to represent industries that are directly affected by agriculture-related trade and export policies, programs, and practices of the United States, including, but not limited to, the following:

"(A) producers of major agricultural commodities in the United States;

"(B) processors or refiners of United States agricultural commodities;

"(C) exporters, transporters, or shippers of United States agricultural commodities and products to foreign countries;

"(D) suppliers of production equipment or materials to United States farmers;

"(E) providers of financing or credit for domestic and export agricultural purposes; and

"(F) organizations representing general farm and rural interests in the United States.

"(c) The chairmen and ranking minority members of the House Committee on Agriculture, the Senate Committee on Agriculture, Nutrition, and Forestry, the House Committee on Foreign Affairs, the Senate Committee on Foreign Relations, the House Committee on Ways and Means, and the Senate Committee on Finance shall serve as ex officio members of the Commission and shall have the same voting rights as the members of the Commission selected and appointed under the provisions of subsection (b)(2) of this section. The chairmen and ranking minority members may designate other members of their respective committees to serve in their stead as members of the Commission.

"(d) A vacancy in the Commission shall be filled in the manner in which the original appointment was made.

"(e) The Commission shall elect a chairman from among the members of the Commission who are selected and appointed under the provisions of subsection (b)(2) of this section.

"(f) The Commission shall meet at the call of the chairman or a majority of the Commission.

"CONDUCT OF STUDY

"SEC. 1220. The Commission shall study the agriculture-related trade and export policies, programs, and practices of the United States and the international and domestic factors affecting such policies, programs, and practices, including the intergovernmental activities of the United States that affect the formulation of policies. In conducting the study, the Commission shall consider, among other things, the following:

"(1) the effectiveness of existing agricultural export assistance programs, and the manner in which they can be improved;

"(2) new export assistance programs that should be considered, and the conditions under which they can be implemented;

"(3) practices of foreign countries that impede the export of United States agricultural commodities and products, and appropriate responses for the United States;

"(4) the effectiveness of the trade agreements program of the United States with respect to agriculture-related trade and exports, and the manner in which it can be improved;

"(5) international economic trends that affect agricultural exports, and the manner in which the United States can best adjust its policies, programs, and practices to meet changing economic conditions;

"(6) potential areas of conflict and compatibility between international agricultural trade and foreign food assistance programs, and the manner in which any conflict can be resolved; and

"(7) the relationship between international agricultural trade and foreign economic development programs, and the manner in which they can be made more compatible.

"RECOMMENDATIONS AND REPORTS

"SEC. 1221. (a) On the basis of its study, the Commission shall make findings and develop recommendations for consideration by the President and Congress with respect to the agriculture-related trade and export policies, programs, and practices of the United States, and the manner in which such policies, programs, and practices can be improved to better develop, maintain, and expand markets for United States agricultural exports.

"(b) The Commission shall submit to the President and Congress—

"(1) a report containing its initial findings and recommendations by March 31, 1985,

"(2) such additional interim reports on its work as may be requested by the chairman of any of the Committees set forth in section 1219(c) of this subtitle, and

"(3) a report containing the final results of its study and its recommendations therefrom by July 1, 1986.

"ADMINISTRATION

"SEC. 1222. (a) The heads of Executive agencies, the General Accounting Office, the International Trade Commission, and the Congressional Budget Office shall, to the extent permitted by law, provide the Commission such information as it may require in carrying out its duties and functions.

"(b) Members of the Commission shall serve without any additional compensation for work on the Commission. However, members appointed from among private citizens of the United States may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons serving intermittently in the government service under sections 5701 through 5707 of title 5, United States Code.

"(c) To the extent there are sufficient funds available to the Commission in advance under section 1223 of this subtitle, and subject to such rules as may be adopted by the Commission, the chairman, without regard to the provisions of title 5, United States Code, governing appointments in the competitive service and without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates, shall have the power to—

"(1) appoint and fix the compensation of a director; and

"(2) appoint and fix the compensation of such additional staff personnel as the Commission determines necessary to carry out its duties and functions.

"(d) Upon request of the Commission, the Secretary of Agriculture shall furnish the Commission with such personnel and support services as are necessary to assist the Commission in carrying out its duties and functions.

"(e) Upon request of the Commission, the heads of other Executive agencies and the General Accounting Office are each authorized to furnish the Commission with such personnel and support services as the head of the agency or office and the chairman of the Commission agree are necessary to assist the Commission in carrying out its duties and functions.

"(f) The Commission shall not be required to pay or reimburse any agency or office for personnel and support services provided under this section.

"(g) In accordance with section 12 of the Federal Advisory Committee Act, the Secretary of Agriculture shall maintain such financial records as will fully disclose the disposition of any funds that may be at the disposal of the Commission and the nature and extent of its activities, and the Comptroler General of the United States, or any of the Comptroller General's authorized representatives, shall have access to such records for the purpose of audit and examination.

"(h) The Commission shall be exempt from section 7(d), section 10(e), section 10(f), and section 14 of the Federal Advisory Committee Act.

"(i) The Commission shall be exempt from the requirements of sections 4301 through 4305 of title 5, United States Code.

"PUBLIC SUPPORT

["SEC. 1223. (a) Notwithstanding the provisions of section 1342 of title 31, United States Code, the Secretary of Agriculture may receive, from persons, corporations, foundations, and all other groups and entities within the United States, contributions of money and services to assist the Commission in carrying out its duties and functions. Any money contributed under this section shall be available to the Commission for the payment of salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle.]

"SEC. 1223. (a) Following the appointment or designation of the members of the Commission, notwithstanding the provisions of section 1342 of title 31, United States Code, the Secretary of Agriculture may receive, from persons, corporations, foundations, and all other groups and entities within the United States, contributions of money and services to assist the Commission in carrying out its duties and functions. Any money contributed under this section shall be available to the Commission for the payment of salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle. In no event may the contributions from any one person, corporation, foundation, or other group or entity exceed 5 per centum of the Commission's total budget.

"(b) If the contributions provided under subsection (a) are insufficient for payment of Commission salaries, travel expenses, per diem, and other expenses incurred by the Commission under this subtitle, the Secretary of Agriculture is authorized to use the funds of the Commodity Credit Corporation for such purposes in an amount not to exceed a total of $1,000,000.

["(b)] *"(c)* The Secretary of Agriculture shall keep, and shall make available for public inspection during normal business hours, records that fully disclose a complete list of every person, group, and entity making a contribution under this section, the address of the contributor, the amount and type of each such contribution, and the date the contribution was made.

["(c)] *"(d)* Any amount of money available to the Commission under this section that remains unobligated upon termination of

the Commission shall be deposited in the Treasury as miscellaneous receipts.

"TERMINATION

"SEC. 1224. The Commission shall terminate sixty days after the transmission of its final report to the President and Congress."

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ASSOCIATE AND DISSENTING VIEWS

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RUSSELL B. LONG
LOUISIANA

United States Senate
WASHINGTON, DC 20510

June 30, 1986

Mr. Kenneth Bader
Chairman
National Commission on Agriculture
Trade and Export Policy
1515 South Building
14th and Independence Avenue, S.W.
Washington, D. C. 20250

Dear Mr. Chairman:

I wish to commend you for the excellent job you have done as Chairman of the National Agriculture and Trade Export Policy Commission. Your leadership has contributed significantly to the Commission's ability to thoroughly explore methods of improving agricultural trade and exports.

I am convinced that we must work aggressively to establish a strong agricultural trade policy. The report which the Commission has completed will be beneficial in that respect. I am in general agreement with most aspects of the report; however, I wish to express my reservations regarding the recommendations on cargo preference.

I have long felt that it is in the best interest of U.S. agriculture and the U.S. merchant marine for these two vital industries to work together. For this reason, I support the compromise reached by sectors of the U.S. agricultural community and the maritime industry as embodied in the Food Security Act of 1985.

Both agriculture and the merchant marine are facing problems virtually without precedent and it is in the national interest to insure that these problems are resolved. I do not believe this needs to be done at the expense of either of these vital industries.

The cargo preference compromise included within the 1985 farm bill has gained the support of many segments of the agricultural community, the merchant marine industry and the majority of both houses of Congress. It resolves the controversy and litigation over export promotion programs by exempting "quasi-commercial" programs from cargo preference requirements. U.S.-flag vessels will continue to carry their fair share of foreign aid and other concessional cargoes and, for the first time, the Department of Transportation will pay a significant portion of this cost. I believe this represents a sound resolution of these difficult issues.

I am hopeful the final recommendations of the Commission will do much to help promote the competitiveness of U.S. agricultural products. It has been a privilege to serve with you and the other members of the Commission in furtherance of this goal.

Sincerely yours,

Russell B. Long
United States Senate

ASSOCIATE VIEWS

OF

E. LINWOOD TIPTION,

Commission Member
and
Executive Vice President,
Milk Industry Foundation and
International Association of
Ice Cream Manufacturers

Although generally agreeing with and fully supporting most elements of the Commission's report, I offer the following comments which are intended to primarily suggest a slightly different focus and emphasis in three areas of the report.

Probably the most important single factor affecting exports of agriculture products has been the value of the dollar vis-a-vis the value of other currencies. From 1980 to the first quarter of 1985, the real inflation-adjusted trade weighted value of the U.S. dollar, as reported by the U.S. Federal Reserve Board, rose by 71%. It has subsequently declined to a level that is still 25% above its average 1980 rate. This 71% increase in the cost of U.S. agriculture exports relative to our competitors was the single most important reason for the decline in U.S. agriculture exports. The steady and pronounced decline in the dollar's value since the first quarter of 1985 has already markedly improved the competitive position of American agriculture; and the further declines that seem increasingly probable will do more to restore our competitive vitality than any other action available to the U.S.

Conversely when the value of the U.S. dollar was low relative to the value of the currency of competing countries, U.S. exports increased dramatically. The importance of the relative value of the U.S. dollar may not have received the full attention it deserved in the report.

I am fearful that too much emphasis may have been placed on counteracting foreign unfair trade practices. It is not that I think unfair trade practices should be tolerated. Instead it's a fear that retaliatory actions often bring about even more severe retaliatory reactions.

Foreign governments have no monopoly on protectionist policies. The average tariff rates of the U.S., for example, are roughly equal to those applied by the Japanese. While it is difficult to accurately quantify non-tariff barriers, recent analyses by the World Bank have indicated that based on two of the three commonly accepted techniques for quantifying its impact of protectionism, the United States employs more non-tariff barriers than Japan and that based upon a third measure, we are only slightly less protectionist.

The real losers from protectionism are consumers everywhere. In fact, as we listen to the new protectionist rhetoric, we may sometimes forget that the ultimate purpose of economic activity is consumption -- not the steady accumulation of foreign reserves or trade surpluses.

Several agricultural commodities are tightly protected in the U.S. from imports through the use of quotas. Imports of sugar and of milk and dairy products are most noteworthy.

For instance, the current U.S. sugar program forces undue hardships on a number of areas. The 1986 Economic Report of the President concluded that U.S. sugar programs cost United States consumers $2.5 to $2.9 billion annually, equivalent to $200,000 to $240,000 annually for every U.S. sugar grower. These costs are in addition to the revenue loss to developing countries of over $7 billion annually caused by the protectionist policy of all industrialized countries -- with the European Community and the United States being the principal culprits.

As the world's richest democracy and as the self-appointed advocate and guardian of free enterprise principles, failure to provide reasonable access to the United States market would do more to undermine the developing world's growing interest in following market-oriented policies than any other action we could take.

No nation has more to lose by slipping down the path into protectionism that the U.S.; and no sector of American industry has more to lose from such a course than American agriculture.

The final area of the report which may offer minimal or questionable benefits toward increasing exports are some of those suggesting that the Department of Agriculture should be designated as the lead agency within the government in all matters of agricultural trade, agricultural trade policy, and agriculturally-related foreign economic assistance. Separating so clearly the responsibility for policy development, and from the U.S. trade representative who would be charged with the responsibility of negotiations, does not appear to be a sound basis for managing our interest. The current relationship between policy development and negotiations is and has worked quite well and should be retained. Several of the suggestions for reorganization of the Department of Agriculture have merit, but I question the advisability of including economic analysis under the Foreign Agricultural Service.

I commend my fellow Commissioners and the Commission staff for their major contributions to what I believe is a good and actionable report. I hope it helps increase agricultural exports.

National Corn Growers Association
1000 Executive Parkway
Suite 224, P.O. Box 27353
St. Louis, MO 63141
314/275-9915

Mr. Kenneth L. Bader
Chairman
National Commission on Agricultural
Trade and Export Policy
14th Street & Independence Avenue, S.W.
Washington, D.C. 20250

June 13, 1986

Dear Ken:

I would like to take this opportunity of filing with the National Commission on Agricultural Trade and Export Policy several dissenting views and positions vis-a-vis several of the major recommendations by the Commission. My dissenting views and positions will also explain my vote against the adoption by the Commission of the "final recommendations." I trust that you will provide copies of this letter to all members of the Commission, as well as incorporate it into the final report filed by the Commission.

1. Jackson-Vanik Amendment of 1972: The Commission displayed little, if any, appreciation of the overall U.S. export trade restraint of this Amendment to the Soviet Union and other Eastern European countries. In addition, the Commission did not, apparently, examine the question of why major countries with centralized planned economies have been precluded from membership in the General Agreement on Tariffs and Trade (GATT) -- membership which would automatically provide for "Most-Favored-Nation" (MFN) import tariff treatment in the U.S. market. While it is commendable that the Commission recommended "... a moratorium ..." of the provision of Jackson-Vanik Amendment, such a recommendation is further tied to required political or social performance by foreign governments, inasmuch as all major competitive grain exporting countries have granted most-favored-nation treatments without any such trade-offs.

   The Jackson-Vanik Amendment of 1974 and the Stevenson Amendment of 1972 should be examined by appropriate congressional committees with a view toward determining whether these amendments produced any desired results during which time the United States lost considerable agricultural export volume to other competing exporting countries in the Eastern European bloc.

2. U.S. Grain Export Quality: The Commission did not recommend any immediate and concrete program to address the export quality problems plaguing U.S. grain exports. This problem area in the U.S. grain exports was simply side-stepped by the Commission by urging that the "industry should quickly resolve quality issue..."

The "industry" has been urged for years to resolve grain export quality problems. The Commission should have made specific recommendations for the "industry" to consider: grain export standard changes; changes in grading standards and procedures; moisture determination; as well as blending procedures from the farm gate, throughout the marketing and transportation system, to the final export loading point.

3. Cargo Preference and the Method of Funding: At an early stage in the national political process to reach a realistic and workable solution to these two related matters, the Commission interjected itself in basically a "lobbying" effort to affect the 1985 Farm Bill. Such activity was not provided for in the Congressional Resolution authorizing the creation and work of the Commission. Notwithstanding the overwhelming congressional approval and acceptance of a "realistic and workable" solution to these two questions -- supported by an overwhelming majority of U.S. agricultural organizations and commodity groups, the Commission continues either to ignore or to understand that the 1985 Farm Bill provided for a "cargo preference compromise" that achieves exactly what the Commission recommended, but without attempting a politically unobtainable goal of "repealing" completely the requirement of "cargo preference requirement" on P.L. 480 generated agricultural exports.

   In the solution supported by the agricultural industry to the "cargo preference" question, the additional funding for this requirement will be appropriated by Congress directly to the Department of Transportation. The basic compromise itself and the formula for funding P.L. 480 generated agricultural exports will in no way either (1) lower prices to U.S. farmers, or (2) raise the landed cost to recipient importing countries.

   For the Commission to recommend that "Congress and the Administration should reopen the issue of cargo preference for additional review" flies in the face of political reality in Washington, D.C. As a matter of fact, the 1985 Farm Bill provides for a National Advisory Commission on Agricultural Export Transportation Policy to do exactly what the Commission recommends: to review all aspects of the P.L. 480 agricultural export program and cargo preference, and make a final report to the Secretaries of Agriculture and Transportation, as well as the appropriate congressional committees.

4. USDA Reorganization: While there may be some merit in the Commission's recommendation to reorganize various agencies within the U.S. Department of Agriculture, it would not achieve the goal of "... strengthening agricultural interests." Before making such a recommendation for such a detailed reorganization of USDA structure and processes, the Commission should have examined fully and completely such proposals with appropriate officials of the Department of Agriculture, the Office of Management and Budget, as well as appropriate congressional committees. It appears that the Commission, in making such a far-reaching USDA reorganization (which could well serve, if implemented, to add only additional layers of bureaucratic structure and processes), simply assumed that the current USDA structure and processes "is broke and needs fixing."

I value the opportunity to have served on the National Commission on Agricultural Trade and Export Policy. Nevertheless, I cannot support the final report to the President because of some major recommendations (such as I outlined above), as well as the paucity of evidence, knowledge, and/or willingness of the Commission to tackle and recommend solutions to the basic problems plaguing the price, quality and availability of U.S. agricultural exports to be competitive in the international marketplace. Nevertheless, the overall work of the Commission has served a useful purpose inasmuch as it did underscore many factors affecting U.S. agricultural exports over which the United States has no control.

I trust that my dissenting views are received in the same spirit in which I offer them. We must improve the U.S. agricultural export competitiveness in international trade. And, in conclusion, I request again that my dissenting views and positions be made a part of the final report to the President.

Sincerely,

Jack

Jack Parsons, Commissioner
National Commission on Agricultural
Trade and Export Policy

JP:mj
cc: NCGA Board of Directors
National Commission Members

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BACKGROUND OF THE COMMISSION

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COMMISSION HISTORY

Establishment

The National Commission on Agricultural Trade and Export Policy was established by the signing of Public Law 98-412 on August 30, 1984. The Commission was directed "to conduct a study of the agriculture-related trade and export policies, programs, and practices of the United States."

Initial Organization

During the fall of 1984, the private sector members of the Commission were selected by the Speaker and Minority Leader of the House of Representatives and by the President pro tempore, Majority Leader and Minority Leader of the Senate. Congressional members were appointed as directed in the legislation and Administration members selected by President Reagan. The first meeting of the Commission took place on November 30, 1984. **Dr. Kenneth Bader was elected Chairman of the Commission and Mr. Robert Delano was elected Vice Chairman.**

In January 1985, **Mr. Jimmy Minyard was appointed Executive Director and Mr. Steven McCoy was appointed Associate Director.** They were immediately assigned the task of hiring the remainder of the staff and organizing an office to meet the needs of the Commission.

The Interim Report: January - March, 1985

During the first three months of the Commission's tenure a series of four business meetings were held in Washington to develop recommendations of the Commission to be included in its Interim Report to the President and the Congress, as was required by law. In March 1985, the Interim Report was released.

The Interim Report was well received around the country and sparked interest the Commission. Concern over the decline in agricultural trade continued to increase throughout the United States during 1985. To better explore ideas concerning the agricultural trade situation, the Commission initiated a series of hearings.

REGIONAL HEARINGS

St. Louis, Missouri
May 10, 1985
(General Farm Situation)

In May, the Commission held its first field hearing in St. Louis, Missouri. The hearing was opened by a panel of state legislators representing the Midwest Conference of State Governments' Agricultural Task Force. They focused on the farm situation in the Midwest. Specifically, they cited domestic problems stemming directly from lost export sales and the ramifications of federal export policies at the state level.

As this was the only meeting to be held in the Midwest, a variety of regional topics were covered. There was substantial support shown for the Interim Report and suggestions as to strengthening of its recommendations. The meat and livestock industry was represented by a variety of individuals who discussed their respective export activities and ways in which the federal government could be of assistance in expanding agricultural programs to include livestock.

Missouri Congressman Bill Emerson addressed the Commission on the importance of exports to the American farming industry. Larry Shepker, Deputy Director of the Missouri Department of Agriculture, and Larry Werries, Director of the Illinois Department of Agriculture, gave overviews of the agricultural situation in their states, stressing the importance of deficit reduction and the importance of competitiveness in the world markets.

Wayne Boutwell of the National Council of Farmer Cooperatives presented the marketing loan concept, and Richard Bell of Riceland Industries discussed the competitive position of the U.S. rice industry.

Also submitted at this meeting were suggestions from both the fertilizer and agricultural chemical industries. These recommendations stressed the importance of open world markets, foreign market development programs, and improved quality of production.

Atlanta, Georgia
June 10, 1985
(U.S. Agricultural Competitiveness)

The June hearing, which focused on the issue of U.S. agricultural competitiveness, was held in Atlanta, Georgia. Discussion at this meeting centered around the problems of foreign competition facing the different agricultural industries. The need for a "level playing field" was stressed, with a variety of methods suggested to alleviate unfair competition.

Exporters were concerned that the value of the dollar was pricing their products out of the market, and that other countries were subsidizing their products at the expense of the American farmer. It was suggested that market development programs should expand the scope of products included.

Representatives of industries facing competition from subsidized imports recommended that these products be imported either in limited quantities, or with a tariff imposed to protect the domestic industry. The fruit and vegetable industry requested that imports be subject to the same chemical and sanitary regulations as domestically produced products.

Washington, DC
July 12, 1985
(The Value of the Dollar)

The July meeting, held in Washington, DC, focused on the effect of changes in the value of the dollar. Discussion centered around the federal deficit and its impact on the value of the dollar and on methods of improving the financial position of the United States.

Senator Wendell Ford proposed a target zone for exchange rates and for government action when necessary. C. Fred Bergston, of The Institute for International Economics, stressed the importance of deficit reduction. AFL-CIO representative Henry Schechter called for international discussions on monetary policy and an international surcharge on imports to correct unfair trade practices. Robert Cornell of the U.S. Treasury called for changes in European and Japanese economic systems to alleviate pressure on the United States.

In addition, Robert Rumler of the Holstein Association encouraged export expansion efforts targeted at the customer in individual countries.

Denver, Colorado
August 12, 1985
(U.S. Trade Policy Process)

In August, the Commission met in Denver to discuss trade policy. USDA Under Secretary Dan Amstutz described the manner in which trade policy is determined by the current Administration. Dr. Mike Cook, formerly of Farmland World Trade, promoted a more activist trade policy, including the centralization of the tools of trade policy, the promotion of exports, and the long-term stabilization of monetary and fiscal policies. Professor Jimmye Hillman, University of Arizona, reviewed the evolution of U.S. trade policy, stressing the importance of a long-term complemen- tary program coordinating both domestic agricultural policies and international trade in agricultural products. Congressman Hank Brown emphasized the need for equal access in foreign markets and a long-range trade policy, including a new Department of Trade.

In addition, other issues discussed at previous meetings were explored. Bob Anthony, President, American Poultry International, Ltd., discussed subsidized European competition in the poultry industry. William Harding of the Central Bank for Cooperators and Tim Schultz, Commission of Agriculture, State of Colorado, denounced cargo preference programs and encouraged better marketing of U.S. products on the world market. Also discussed was the importance of maintaining a strong domestic farm economy. Commissioner Jack Reed described the ineffectiveness of Section 301 petitions.

Fresno, California
September 13, 1985
(Value-Added Exports)

The September meeting in Fresno, California covered a wide variety of export issues specifically relating to the specialty crops produced in California. Congressman Tony Coelho stressed the importance of a level playing field for agricultural trade, and of a strong voice for agriculture in government.

Important to many of the specialty crop producers are the inconsistent and unnecessary

technical and scientific standards imposed by many of our trading partners. Henry Voss, President of the California Farm Bureau, suggested that specialty crops be included in an expanded PL 480 program, and that the government assist producers with research to overcome health and sanitary import restrictions. Dan Schaughnessy, representing the Export Processing Industry Coalition, testified as to the additional domestic benefits of exporting greater volumes of value-added and high value agricultural products. March Fong Eu stressed the importance of open market access and the absolute reductions in subsidies. An apricot industry representative requested the ITC to revise its requirements to meet the needs of agriculture in addition to manufacturing. In addition, different sides of the marketing order concept were discussed.

As expected, the variety of agricultural products exported from California expands the number of difficulties encountered. However, the same issues raised in more traditional production areas continued to arise: the value of the dollar, the federal deficit, unfair subsidies, the cumbersomeness of the GATT process, and the inconsistencies surrounding federal programs.

Charlottesville, Virginia
October 20-22, 1985
(US-EC Agricultural Leaders Summit)

In October, the Commission hosted a delegation of European agricultural leaders in Charlottesville, Virginia. The purpose of the conference was to promote greater understanding of U.S. and EC perspectives on agricultural trade matters through an open exchange of ideas in an informal setting.

At the opening session, Chairman Ken Bader welcomed the Europeans to Virginia. Commissioner Bob Delano, President of the American Farm Bureau Federation, and Sir Richard Butler, President of COPA, reported to the session on the current economic and political conditions in their respective environments. Carol Brookins of World Perspectives gave an overview of future agricultural trade and policy issues. The discussion following each of these presentations broadened the base of knowledge of the participants.

In addition to the general sessions, participants split into three smaller workshops to discuss different issues in greater depth. The workshop topics were:

1. The importance of a viable domestic agricultural sector to both Europeans and Americans.
2. The differences and solutions to the ways in which Europeans and Americans confront the changing competitive international trade environment, and the increasing number of disputes between both parties.
3. The problem facing both Europe and the United States of increas- ing surpluses and the lack of effective mechanisms to expand global demand.

In addition to the established forums of the general session and the workshops, much was gained through informal discussions at social occasions and meals, often in a more open manner than could be expected in a meeting session. The participants left the meeting with a broader sense of where their respective agricultural sectors fit into the global scene, and with increased interest in finding mutually advantageous policies to alleviate current strains in the international agricultural economy.

Portland, Oregon
November 15, 1985
(Market Development)

Market development activities were the focus of the November meeting in Portland, Oregon. Much support was given to the FAS market development cooperator program. More contact and coordina- tion between state and federal efforts was encouraged, with the specific suggestion that agricultural trade officers have U.S. regional tours of duty as part of their rotation process to provide their expertise to local businesses. Greater emphasis on foreign trade shows was also encouraged.

The lumber and lumber products industry, which is very important in the Northwest, recommended expanding federal efforts to promote value-added lumber products through PL 480 and other federal market development programs. Representatives of specialty crop prod-

ucts, including berries, cherries, and apples, testified about the difficulties caused by artificial sanitary and licensing requirements imposed abroad. They also mentioned the unrealistic procedures imposed on small producers necessary to present and win a case at the ITC or to work through the federal agricultural bureaucracies which are both used to dealing with bulk commodities.

In conjunction with the November meeting, the Commissioners also toured the Port of Portland and the Forestry Center. Both events highlighted the importance of exports and forest products to the Pacific Northwest.

Houston, Texas
January 10, 1986
(Third-World Issues)

The January meeting in Houston had a decidedly international theme in discussing the impact of Less Developed Countries' debt situation on the exports of U.S. agricultural products. Congressman de la Garza welcomed the Commission to Texas and emphasized the importance the United States places on trade with countries in North and South America.

Eduardo Pesqueria Olea, Mexican Minister of Agriculture, discussed the often detrimental effects of U.S. agricultural policies on Mexico, the importance of Mexican agricultural exports, and the difficulties involved in exporting Mexican agricultural products to the United States. Jorge Cort, President of the National Board of Trade of Buenos Aires, cautioned the Commission against protectionist measures, and emphasized the importance of trade in servicing foreign debt. Hector Donadio, President of the Grain Exchange of Buenos Aires, discussed the changing involvement of government in agricultural trade policies, and the need for improved infrastructure to support agricultural trade in Latin America.

USDA Under Secretary Dan Amstutz discussed the importance of trade relationships with Latin America, and emphasized the Administration's view that a fair and open trading climate is necessary to ensure the health of that agricultural sector. Mathew Shane, USDA/ERS, addressed the Commission on financial and fiscal restraints to trade in third-world countries. Bryan Argyle of the World Bank discussed how changes in the global economic environment have affected agricultural trade.

Lynn Engstrand described Northrup Corporation's innovative agribusiness development program used to meet offset requirements established by purchasers of military hardware. Sam Stone of Associated Mill Producers, Inc., discussed the impact of casein imports on the domestic dairy industry.

Final Business Meetings

The January meeting in Houston was the final field hearing. In February, the Commission began the process of narrowing down options for inclusion in the final report. The report writing process was incorporated into the format of the February, March, April, and May meetings.

In May, the final set of recommendations was approved. The document was then sent to each individual Commissioner for comment. The May meeting was the final business meeting of the Commission.

AGEXPORT '86
June 16-20, 1986

The Commission's set of recommendations was highlighted the week of June 16-20 in a public forum designated "AGEXPORT '86." Both U.S. and foreign agricultural trade and commodity leaders participated in AGEXPORT '86, discussing issues of vital concern to American agriculture.

Specific areas of discussion included the following:

- Streamlining the Agricultural Trade Policy Process
- Using All Existing Tools to Expand Exports
- Separating Foreign Policy and Trade
- Targeting Third-World Countries Through Market Development
- Managing Macroeconomic Influences
- Expanding Trade in Value-Added Commodities
- Aggressively Counteracting Unfair Trade Practices
- Enhancing U.S. Competitiveness

Commission Funding

The National Commission on Agricultural Trade and Export Policy is among the first federal Commissions to be partially funded by the private sector. The Commission legislation, Public Law 98-412, stated that "the Secretary of Agriculture may receive from persons, corporations, foundations, and all other groups and entities within the United States, contributions of money and services to assist the Commission in carrying out its duties and functions." The Secretary of Agriculture was also authorized to use up to $1,000,000 of the Commodity Credit Corporation funds to support the activities of the Commission.

Although, at the time of this printing, the financial records of the Commission are not complete, the Commission has succeeded in collecting over $300,000 in private sector donations. A partial list of contributors is included on the following pages.

Agrico Chemical Company
Air Products and Chemicals Company
American Cyanamid Company
American Farm Bureau Federation
American Soybean Association
Archer Daniels Midland Company
Associated Milk Producers, Incorporated
Mr. Dean W. Barcus
Mr. Lloyd Bentsen, Sr.
Burlington Northern
Calcot, Ltd.
Central Bank for Cooperatives
C.F. Industries
Charthouse Services
Chicago Board of Trade
Chocolate Manufacturers Association
Coca Cola Company
Cominco American
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Missouri Corn Merchandizing Corporation
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National Cotton Council
National Corn Growers Association
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TransAmmonia
Union Oil Company of California
United Missouri Bank
U.S. Cane Sugar Refiners
U.S. Meat Export Federation
U.S. Wheat Associates
W.R. Grace and Company

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WITNESSES BEFORE THE COMMISSION
1985-1986

Mr. Walter Roorda, Representative, Indiana State Assembly.

Mr. Alvin Miller, Senator, Iowa State Senate.

Mr. Joseph Tregoning, Representative, Wisconsin State Assembly.

Mr. Steven Sharp, Senator, Missouri State Assembly.

Ms. Arlene Nelson, Senator, Nebraska State Senate.

Mr. Larry Werries, Chairman, National Association of State Departments of Agriculture; Director, Illinois Department of Agriculture.

Mr. Dennis Norton, Director of Internaitonal Sales, Swift Independent Packing Company.

Mr. Bob Heilman, American Marketing Services.

Mr. B.C. Snidow, U.S. Beef Breeds Council.

Dr. Richard Carmichael, American Embryo Association.

Mr. R. Marion Strother, Livestock Exporters Association.

Mr. Bill Emerson, Congressman from Missouri, U.S. House of Representatives.

Mr. Richard Bell, President, Riceland Foods.

Mr. Wayne Boutwell, President, National Council of Farmer Cooperatives.

Mr. Larry Shepker, Deputy Director, Missouri Department of Agriculture.

Mr. Winston Wilson, President, U.S. Wheat Associates.

Mr. John Langwick, Managing Director, USA Poultry and Egg Export Council.

Mr. Wayne Crain, Manager, Florida Fruit and Vegetable Association.

Mr. John Himmelberg, Counsel, Florida Fruit and Vegetable Association.

Mr. Vernon McMinimy, Director of Commodity Research, A.E. Staley Manufacturing Company.

Mr. Daniel Frierson, President, Dixie Yarns, Inc.

Mr. Curt Beatty, Vice President, John Morrell and Co.; U.S. Meat Export Federation.

Dr. Albert Ortego, Senior Vice President, Dairymen, Inc.

Mr. Richard Buchanan, President, Buchanan Lumber Company.

Mr. John Ward, Vice President, National Forest Products Association.

Washington, DC **July 12, 1985** **(The Value of the Dollar)**

Mr. Wendell Ford, Senator from Kentucky, U.S. Senate.

Mr. C. Fred Bergston, Director, The Institute for International Economics.

Mr. Larry Fox, Vice President for International Economic Affairs, National Association of Manufacturers.

Mr. Robert Cornell, Deputy Assistant Secretary for International Trade and Investment, U.S. Department of Treasury.

Mr. Rudy Penner, Director, Congressional Budget Office.

Mr. Henry Schecter, Deputy Director of Research, AFL-CIO.

Mr. Robert Rumler, Chairman Emeritus, Holstein Association.

Denver, Colorado **August 12, 1985** **(U.S. Trade Policy Process)**

Dr. Mike Cook, Vice President for Corporate Planning, Farmland Industries.

Mr. Bob Anthony, President, American Poultry International, Ltd.

Mr. Malcolm Harding, President, Central Bank for Cooperatives.

Mr. Timothy Schultz, Commissioner, Colorado Department of Agriculture.

Dr. Jimmye Hillman, Head of the Department of Agricultural Economics, University of Arizona.

Mr. Reggie Wyckoff, President, Colorado Wheat Growers Association.

Mr. Donald Butler, U.S. Meat Export Federation.

Mr. Bruce Kaufman, President, Colorado Corn Growers.

Mr. Lorin Starkebaum, President, Colorado Wheat Administrative Committee.

Fresno, California **September 13, 1985** **(Value-Added Exports)**

Mr. Tony Coelho, Congressman from California, U.S. House of Representatives.

Mr. Rich Mallory, Assistant to Senator Pete Wilson.

Ms. Jean Marie Peltier, Senior Policy Specialist, California State World Trade Commission.

Mr. Henry Voss, President, California Farm Bureau Federation.

Mr. Jim Van Maren, Group Manager for Agricultural and Consumer Affairs, California Chamber of Commerce.

Mr. Roger Baccigalupi, President, California Almond Growers Exchange.

Mr. Ron Schuler, President, California Canning Peach Association.

Mr. Larry LaTouf, Executive Vice President, Calcot, Ltd.

Mr. John Givens, Jr., President, InterTrade Systems, Inc.

Mr. Dan Shaughnessy, President, Export Processing Industry Coalition.

Mr. Clare Berryhill, Director, California Department of Agriculture.

Mr. Leland Ruth, President, Agricultural Council of California.

Mr. John Ward, Vice President, National Forest Products Association.

Ms. Karin Watson, Special Assistant to Pat Nolan, Minority Leader of the California State Assembly.

Mr. Dave Lewis, President, Tiger Trading and Export Company.

Mr. Mel Coelho, General Manager, San Joaquin Valley Hay Growers Association.

Mr. Bill Quarles, Vice President, Sunkist.

Mr. William Burns, President, Ranchers Cotton Oil Company.

Ms. Rhonda Wilbur, Daughter of an Apricot Producer.

Mr. Les Rose, Vice President, Apricot Producers of California.

Mrs. Laurena Johnson, President, California Women for Agiculture.

DELEGATION OF EUROPEAN AGRICULTURAL LEADERS

Mr. Mathias Berns, Secretaire General Centrale Paysanne Luxembourgeoise.

Mr. John H.H. Bradbury, UK Buying Director, United Biscuits (UK) Ltd.

Sir Richard Butler, President, National Farmers Union of England and Wales and President, COPA.

Mr. Felipe Gerard de Caferelli, Assemblee Permanente des Chambres d'Agriculture.

Mr. J.A. Dumas, Directeur General, CDF Chimie - AZF President, Association Europeenne des Producteurs Europeens d'Azote (A.P.E.A.).

Mr. Felipe Gonzalez de Canales, Secretary General, Centro Nacional de Jovenes Agriculturoes (CNJA).

Mr. Ian David Grant, President, National Farmers Union of Scotland and President,COPA/COGECA Cereals Committee.

Mr. Francois Guillaume, President de la Federation Nationale des Syndicats d'Exploitants Agricoles.

Mr. Jan Hinnekens, President, Belgische Boerenbond.

Mr. Francis Lepatre, President, Association nationale des Industries Agroalimentaires - ANIA.

Mr. Arcangelo Lobianco, President, Confederazione Nazionale dei Coltivatori Diretti.

Mr. Paolo Micolini, Vice-President, Confederazione Nazionale dei Coltivatori Diretti and Vice-President, COPA.

Mr. Philippe Neeser, President, Association General des Producteurs de Ble et Autres Cereales.

Mr. Martin Nielsen, President, Andelsudvalget.

Mr. Henri Nouyrit, President, COGECA.

Mr. Arendt Oetker, President, Bundesvereinigung der Deutschen Ernahrungsindustrie e.V. - B V E.

Mr. Joe Rea, President, Irish Farmers Association.

Mr. Friedrich Rode, Vice-President, Deutscher Bauernverband and President, Landverband des Niedersach. Landvolkes e.V.

Mr. Andre Sauzin, President, Comite Europeen de Liaison du Commerce Agroalimentaire (CELCAA).

Mr. Jaap Van Der Veen, President, Nederlandse Christelijke Boeren en Tuindersbond.

Mr. Piet Van Waeyenberge, Chairman and Chief Executive Officer, ECOVAL N.V.

Associates

Mr. Chris Floris, President, Groupe des Experts Generaux, COPA.

Mr. Andre Herlitska, Secretaire General, COPA/COGECA.

Mr. Klaus Martin Lotz, Director, External Affairs, Deutcher Bauernverband.

Mr. Simon Rawlinson, President, Specialized Committee on Milk and Milk Products and Chairman, Working Group on Milk and Milk Products.

Mr. Bob Schwerin, Washington Wheat Commission.

Mr. John Oades, Director, West Coast Office, U.S. Wheat Associates.

Mr. Robert Buchanan, President, Oregon Wheat Growers League.

Mr. Cecil Brennan, Executive Vice President, Grain Transportation Consultants of the Pacific Northwest.

Mr. Laverne Brabant, Agricultural Trade Officer, FAS, U.S. Department of Agriculture.

Mr. Glen Ulmer, President, Pacific Northwest International Trade Association.

Mr. Jim Youde, Executive Director, Western United States Agricultural Trade Association.

Mr. Dave Kile, Washington Red Raspberry Commission/Washington Strawberry Commission.

Mr. Walter Swenson, Program Manager, Washington Department of Agriculture.

Mr. Jerry Larson, International Trade Specialist, Oregon Department of Agriculture.

Mr. David Pahl, President, Northwest Food Processors Association.

Mr. Keith Kelly, Director, Montana Department of Agriculture.

Mr. John V. Evans, Governor, State of Idaho.

Mr. William Whelan, Vice Chairman, Pope and Talbot Lumber Co.

Mr. Tom Fast, Director of Export Marketing, American Plywood Association.

Mr. Malcolm Epley, Jr., Vice President for Marketing, Western Wood Products Association.

Mr. Ken Bailey, Cherry and Apple Grower, Oregon Farm Bureau.

Houston, Texas **January 10, 1986** **(Third World Issues)**

Mr. Eduardo Pesqueria Olea, Minister of Agriculture, United States of Mexico.

Mr. Jorge Cort, President, The National Board of Trade of Buenos Aires, Argentina.

Mr. Hector Donadio, President, Grain Exchange of Buenos Aires, Argentina.

Mr. Mathew Shane, ERS, U.S. Department of Agriculture.

Mr. Bryan Argyle, Chief of Agricultural Finance, Agri Industries and Fisheries, The World Bank.

Ms. Lynn Engstrom, Director of Agribusiness, Northrup Corporation.

Mr. Sam Stone, Assistant to the General Manager, Associated Milk Producers, Inc.

AGEXPORT '86, June 16-20, 1986
Washington, DC
Panel Participants

"Streamlining the Agricultural Trade Policy Process"

The Honorable Berkely Bedell
The Honorable Jerry Hickaby
The Honorable Charles Stenholm
Mr. Paul Alagia
Mr. Ken Bader
Mr. Carol Brunthaver
Mr. Robert Delano
Mr. Richard Smith

"Using All Existing Tools to Expand Exports"

The Honorable Don Bonker
The Honorable Cooper Evans
The Honorable Bob Bergland
Mr. Joe Hatfield
Mr. Larry LaTouf
Mr. Bernard Steinweg
Mr. Winston Wilson

"Separating Foreign Policy and Trade"

The Honorable Doug Bereuter
The Honorable Jim Ross Lightfoot
Mr. Marshall Grant
Mr. Dean Kleckner
Mr. Bud Leuthold
Mr. Earl Pryor
Mr. Roy Uelner

"Targeting Third World Countries through Market Development"

The Honorable John Melcher
Mr. Martin Abel
Ms. Carol Brookins
Mr. Irvin Elkin
Mr. Frank Light

"Managing Macroeconomic Influences"

The Honorable Beryl Anthony, Jr.
The Honorable Mack Mattingly
Mr. Dick Bell
Mr. Gary Pfister
Mr. Earl Pryor
Dr. Earl Stennis

"Expanding Trade in Value-Added Products"

The Honorable Mitch McConnell
The Honorable John Block
Mr. Paul Alagia
Mr. Steve Easter
Mr. Fritz Gwin
Mr. Ron Patrick

"Aggressively Counteracting Unfair Trade Practices"

The Honorable Toby Roth
The Honorable Byron Dorgan
Mr. Richard Buchanan
Mr. Donald Butler
Mr. Dave Haggard
Mr. Mike Harper
Mr. Frank Light

"Enhancing U.S. Competitiveness"

The Honorable Max Baucus
The Honorable Robert Thompson
Mr. Ed Anderson
Mr. Wayne Boutwell
Mr. Donald Dubic
Mr. Fritz Gwin

Other Participants

The Honorable Robert Dole
The Honorable E. de la Garza
The Honorable Clayton Yeutter
The Honorable Peter Myers

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SUPPLEMENTAL INFORMATION PREPARED BY THE COMMISSION

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Summary of Recommendations
Of
Recent Commissions and Research Organizations
On The Question of Agricultural Trade

Final Report
The President's Task Force on International Private Enterprise
(Andreas Commission) December 1984

1. Elevate international economic policy to a level comparable to national security

2. Establish an economic security council to counter fragmentation in the policy formulation process

3. Expand opportunities for private enterprise--Use U.S. resources to encourage foreign countries to adopt positive policies towards entrepreneurship

4. Reorient U.S. foreign aid programs as feasible from government-to-government sector flows

5. Press for increased trade flows--Use "mixed credit" trade subsidies to fight unfair competition. Blend AID and EXIM Bank resources. Fully utilize EXIM Bank authority.

6. Constructively use U.S. agricultural abundance--Double P.L. 480

Special Report
Fowler-McCracken Commission, Fall 1984

1. Take vigorous steps to improve the competitiveness of U.S. agriculture and regain U.S. share in world markets

2. Reduce government involvement in agriculture and place greater reliance on market forces, especially in the area of supply management

3. Promote fair free trade on the part of all nations, including the United States, and take steps to promote expansion of U.S. agricultural markets through:

    a. Market promotion

    b. Expanded MTN's

    c. Steps to reduce unfair competition

    d. Prohibition of export embargoes

    e. Use of barter

    f. food aid assistance

4. Provide a more favorable environment for U.S. agriculture by following sound fiscal and monetary policies, particularly aimed at reducing the Federal deficit and lowering interest rates

Final Report of the
Commission on Security and Economic Assistance (Carlucci Commission), November 1983

1. Establish bipartisan leadership support for security and economic assistance as an integral part of U.S. foreign policy

2. Establish a citizens' network to foster support for U.S. security and economic assistance programs

3. Continue support for development education

4. Increase spending on foreign assistance programs

5. Adopt a country approach to program development

6. Integrate security and economic assistance programs, particularly in sub-Saharan Africa, the Caribbean and Central America

7. Support policy reforms in developing countries

8. Greater program emphasis on human resource development

9. Greater emphasis on science and technology--related development assistance

10. Promote and encourage the growth of indigenous private sectors and U.S. private sector contributions to the development process

11. Maintain flexibility in the ESF program and, where possible, use ESF to further economic development and U.S. commercial objectives

11. Increase flexibility in the development assistance account

13. Support development objectives of the P.S. 480 program

14. Establish a mutual development and security administration reporting to the Secretary if State to integrate economic and security assistance and administer assistance and ESF program operations

15. Strengthen interagency coordination through establishment of a consultative group

Report of
The President's Export Council, December 1984

Basic Policies

1. Sound fiscal policy that reduces the Federal deficit and controls inflation by reducing the growth of spending programs, by making outright cuts in others, and by adopting a tax strategy focused on stimulating savings and investment rather than consumption.

2. Monetary and exchange rate policy that eliminates temporary, unrealistic rates of exchange and its unfavorable impact on our levels of imports and exports.

3. Stimulation of research and development through encouragement of cooperative R&D efforts with accompanying clarification of antitrust interpretation as to the legality of these activities and potential penalties involved.

4. Pressure on trading partner nations to eliminate trade barriers and open their markets to free competition from American products.

5. Vigorous enforcement of our trade laws to create incentives for foreign nations to engage in open trade.

6. Stimulation of our educational institutions to produce more trained scientists and engineers.

7. Recognition that some industries will decline, and examination of alternatives for easing the structural change in the economy.

8. Concerted efforts on the part of our private sector to meet the challenge for efficient and competitive production.

9. Promotion of a national awareness of the importance of free and fair trade to the Nation's economic well-being.

Open Trade Policy Recommendations

1. Opposition to domestic content legislation.

2. Opposition to protectionest legislation.

International Monetary Recommendations

1. Support international agreements for stricter monetary discipline so that currency valuation is not used as a subsidy for exports.

2. Support periodic meetings of U.S. and foreign government treasury officials to promotion solutions to exchange rate problems.

3. Promote greater awareness in Congress and the Administration of the impact of dollar valuation on export industries.

Agricultural Policy Recommendations

1. New farm legislation should have a greater market orientation than legislation that prevails today.

2. A financial safety "net" must be provided for U.S. agricultural producers, but this net should be flexible and should always be maintained at market clearing levels.

3. Legislative and executive action should be directed toward preserving the U.S. share of global agricultural export markets, and gradually expanding the market share to reflect the international competitiveness of American agriculture.

4. Adequate credit and reasonable credit terms must be provided for foreign buyers, particularly those from lesser-developed nations.

5. Applicable branches of Government must be encouraged to follow fiscal and monetary policies--with particular emphasis on reducing the size of the Federal deficit--that will lower real U.S. interest rates, thereby easing the present deflationary trend in American agriculture and helping to repair the severe damage to farm export markets that has resulted from a high-valued dollar.

6. The Administration should respond aggressively to the unfair trading practices of our competitors and our import customers, pursuing changes in such practices 1) bilaterally, and 2) multilaterally, through a new round of GATT negotiations, if necessary.

Export Development Programs

1. President should assume personal leadership of efforts to maintain an open trade system.

2. A U.S. Department of Trade should be established.

3. U.S. Foreign Commercial Service (:Department of Commerce) should be upgraded.

4. Coordination of USAID developmental assistance programs and U.S. export objectives should be improved, to expand opportunities for trade.

Unfair Trade Competition

1. The United States must aggressively enforce its trade laws against unfair foreign trade practices, in the U.S. markets, in the markets of offending countries, and in third-country markets.

2. The United States must continue to seek greater transparency in the trade practices of our competitors through bilateral consultations and in multilateral fora.

3. The U.S. Government should seek continued expansion of the signatories to GATT codes relating to market access and competitive practices and should seek additional coverage and tariff reductions both bilaterally and under the GATT, with a new round of multilateral trade negotiations, if necessary.

Industrial Targeting

1. As a first step, the U.S. Government should work to develop a precise definition of "industrial targeting" as a focus for public discussion.

2. The United States should enhance its economic intelligence network to identify and catalog foreign practices that constitute targeting, especially those practices that may injure U.S. industry.

3. With this information on hand, the U.S. Government should properly examine current trade laws to determine whether they adequately deal with specific targeting practices or whether new statutes or broader interpretation of existing statutes are required.

Trade-Related Investment Policies

1. At the first opportune time, the U.S. Government should renew its initiative within GATT to launch a study on the impact of trade-related investment policies (especially performance requirements) on the free flow of goods and services. The U.S. Government should continue to work through the Organization for Economic Cooperation and Development (OECD)for improvement in the investment climate of member countries. The Council further urges the U.S. Government to continue to give high priority to its data-collection and monitoring activities involving foreign trade- related investment policies.

Export Financing

1. The U.S. Government should continue to negotiate though the OECD for a permanent solution to unfair credit practices. In the meantime, the President should ensure that adequate and competitive financing is available to exporters through the Export-Import Bank of the United States and through government agricultural export financing programs. The special needs of small companies must be continually kept in mind by the Eximbank to assure that these companies have an opportunity to participate in export trade. The successor President's Export Council should place examination of the adequacy of export financing among its top priorities.

Export Controls

1. Barring a national emergency, the sanctity of existing business contracts should be recognized in imposing foreign policy controls.

2. When foreign policy controls are considered, every effort should be made to encourage unified allied nations' participation so that such controls will serve the purpose of denying goods and technology to the targeted country and will not simply divert procurement to nonparticipating suppliers.

3. The U.S. Government must control commodities and technologies truly critical to the national security. Government licensing resources and enforcement efforts should be concentrated in these critical areas, and controls over noncritical goods and processes appropriately reduced.

4. The U.S. Government should continue its efforts to harmonize the interpretation, imposition, and enforcement of export controls among allied nations.

5. Where possible and consistent with national security considerations, every effort should be made to reduce the licensing requirements for exports to and through those countries cooperating most closely with the United States in an export control system to protect mutual security.

6. Restricting U.S. exports to a particular country when the same or substitutable items are available from uncontrolled sources undermines U.S. economic and national security interests. A viable foreign availability program is essential to more effective control of the flow of critical technologies to adversary nations.

7. The U.S. Department of Commerce should embrace a management objective to meet or exceed the average license processing times experience by foreign competitors in their home countries.

8. In developing export control policies, procedures and regulations, the Government should consult closely with industry to develop effective export control instruments, to avoid imposing undue or unintended economic and regulatory burdens on U.S. businesses, and to foster continued government-industry cooperation in enforcement efforts.

Private Sector Responsibilities

1. The President's export Council challenges all members of the business community to consider whether they spend the same amount of time and resources on developing new international markets and new products for foreign consumption that is spent on the more familiar domestic marketplace. The most successful traders view the world as their marketplace and employ strategies tailored to the market segments they serve.

2. The President's Export Council urges the private sector not only to assist the Government in tackling complex issues like export credits, the overvalued dollar, and trade barriers, but also to examine the business and marketing strategies of successful foreign competitors. As businessmen we must ask ourselves some very hard questions. If, for example, the disparities between Japan and the United States in government support of exports were eliminated, would U.S. firms be as successful as the Japanese? Or are we, as exporters, failing to make that extra, concentrated effort to win foreign customers and penetrate new international markets?

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SIGNIFICANT COMMISSION

CORRESPONDENCE

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VICE CHAIRMAN

JIMMY D. MINYARD
EXECUTIVE DIRECTOR
STEVEN A. McCOY
ASSOCIATE DIRECTOR

March 19, 1985

The President of the United States
The White House
Washington, D.C.

Dear Mr. President:

The National Commission on Agricultural Trade and Export Policy, an independent advisory body established by law with members appointed by the President, the Speaker of the U.S. House of Representatives, and the President Pro Tempore of the U.S. Senate, has in the course of its recent deliberations examined the effect of cargo preference on U.S. agricultural exports.

Members attending the last Commission meeting held in Washington, D.C., on March 8 and 9, have asked me to write to you in their behalf to inform you of the Commission's strong opposition to current cargo preference law and to any extension of cargo preference requirements to agricultural export programs formerly not subject to this requirement. The Commission has found that cargo preference requirements have a seriously damaging impact on U.S. trade and the Commission urges you and the Congress to take immediate steps to repeal all existing cargo preference laws.

The Commission's position on this issue has been strengthened by evidence stemming from a February 21, 1985, ruling of the U.S. District Court which expands the requirements of the Cargo Preference Act of 1954 to include the U.S. Department of Agriculture's "blended" credit export program. This program was previously an effective tool for protecting U.S. economic interests in world markets. It is strongly supported by the U.S. Department of Agriculture, the Congress and the agricultural community. The Court's ruling effectively kills what had been a highly successful export promotion program by eliminating the incentive which it was intended to offer to overseas customers of U.S. farm products and commodities. As a result, $500 million in export sales of wheat and wheat flour will be lost through the remainder of FY 1985, at a total loss of $1 billion in economic activity to the farm and non-farm sectors.

Advocates of the extension of cargo preference to the "blended" credit program hope to capitalize on a shipping subsidy amounting to $25 to $30 million. However, the U.S. Department of

Agriculture has indicated that no shipments will move under the programs so long as the ruling remains in effect. U.S. ship owners will, therefore, receive no subsidy payments as a result of the Court's action. The Commission fails to see the logic in a ruling that provides no material benefit to U.S. maritime interests, but which will cost the U.S. agricultural sector dearly. This level of economic sacrifice to fulfill the principle of cargo preference is completely unjustified.

Legislation to exempt all U.S. agricultural export programs from cargo preference is strongly endorsed by the Commission. If a strong U.S. merchant fleet is necessary -- and the Commission does not necessarily dispute this goal -- other means of achieving this goal should be developed.

The National Commission on Agricultural Trade and Export Policy has been established by law to advise you and the Congress on necessary steps to improve circumstances facing U.S. agriculture in world markets. Repeal of cargo preference would signal strong resolve by the Administration and Congress to carry out such improvements. The Commission urges you to act expeditiously to remove all cargo preference requirements.

With warm regards.

Sincerely,

Kenneth L. Bader

Kenneth L. Bader
Chairman

KLB:lz

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JIMMY D. MINYARD
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STEVEN A. MCCOY
ASSOCIATE DIRECTOR

May 15, 1985

The Honorable John R. Block
Secretary of Agriculture
200-A Administration Bldg.
Department of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

The Commission is pleased by your announcement today to establish a $2 billion export enhancement program and commends you for this commitment of significant resources to the goal of expanded foreign markets for U.S. agricultural products.

I note that your program will include designation of an 8-member export enhancement advisory group. As you know, the National Commission on Agricultural Trade and Export Policy was created last year to assist the President and Congress in connection with the formulation of government agricultural export policy. The purposes of the export enhancement program you have announced are consistent with recommendations of the Commission involving the use of all available tools to counter unfair trade practices.

In view of this, and because the Commission has among its membership highly respected leaders from a wide cross-section of U.S. agriculture, I urge you to select members of the export enhancement advisory group from among the members of the National Commission on Agricultural Trade and Export Policy. The designation of commission members would ensure that the advisory group is substantially representative of all sectors of the U.S. agricultural industry who have a vital stake in agricultural exports.

With warm regards,

Sincerely,

Ken

Kenneth L. Bader
Chairman

KLB/lz

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JIMMY D. MINYARD
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STEVEN A. MCCOY
ASSOCIATE DIRECTOR

September 4, 1985

The Honorable Ronald W. Reagan
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

The Members of the National Commission on Agricultural Trade and Export Policy wish to take this opportunity to reiterate their continuing concern about the tremendous problem for U.S. agriculture posed by the high-valued U.S. dollar.

In its Interim Report to you of March 1985, the Commission stated that "the value of the dollar far outweighs many of the other factors involved in the current downturn in U.S. agricultural exports." While the dollar has weakened in recent months in relation to European and Japanese currencies, there is no assurance that a long term realignment of the dollar is underway. U.S.-produced commodities and farm products continue to be priced out of world markets. If this trend is allowed to continue, the damage to U.S. agriculture will be deep and lasting. Ultimately, 40% of U.S. agricultural prduction will be eliminated. Farmers, already facing unprecedented financial stress, will be forced into bankruptcy. Related agribusiness industries will suffer the terrible burden of contracted demand for farm imputs. These developments are already beginning to occur. Circumstances for U.S. agriculture can only worsen without concerted action to lower the dollar's value.

Expert testimony presented to the Commission has reinforced the Commission's belief that continuing record budget deficits are a primary factor in maintaining a high-valued dollar. The Congress has acted recently to reduce these deficits by $279.65 billion over three years. While this is in itself significant, current unofficial estimates by the Office of Management and Budget (OMB) indicate that budget deficits are likely to run at levels of over $200 billion annually for the foreseeable future. If budget deficits are indeed the principle cause of a high-valued dollar, it appears clear that progress towards reducing the dollar's

value cannot proceed without further, and potentially more painful, reductions in federal expenditures.

The circumstances surrounding recent Congressional approval of the First Budget Resolution for Fiscal Year 1986 highlight the serious political difficulties involved in further reductions in federal spending. These difficulties will be compounded as the composition of the Federal budget increasingly reflects the cost of defense, social security, medicare and interest on the national debt. Goverment assisted agricultural exports, targeted to demand expansion, can play a significant role in strategies to reduce the Federal budget, through savings in agricultural price support activities and enhanced revenues from agriculture. This option should be considered. The Commission stands ready to assist you in developing a program of agricultural trade that will contribute to the goal of reducing the Federal deficit.

Solutions to the current budgetary problems of the U.S. goverment will inevitably take time. In the the interim, an high-valued dollar will continue to plague not only agriculture, but also all other trade-dependent sectors of the U.S. economy. Continuation of current account deficits in the order of $100 to $150 billion annually poses a considerable threat to the maintenance of economic stability in the United States. According to expert testimony received by the Commission, continued budget and trade imbalances have a potential to precipitate serious economic difficulties in the United States in the near future. Even if this scenario were avoided, the trade imbalance fuels protectionist sentiment and adds to the likelihood of a trade war between the United States and its leading trade partners, which might jeopardize any prospects of improved growth in the world economy.

The Commission makes no specific recommendations to you with regard to the steps which could be taken to realign the value of the dollar, except to encourage you to continue efforts to reduce the size of the Federal budget deficit. However, the Commission has received testimony from expert witnesses in the field of trade and monetary policy that suggest some short term options which exist that may bear your critical assessment.

Evidence presented to the Commission reveals unanimous opinion that greater cooperation be sought by the United States from other industrialized countries to initiate a mutually agreed program to lower the value of the U.S. dollar. Short-term intervention by the United States and other countries in international money markets, anticipating and lending support to downward market adjustments in the value of the dollar, might assist in the process of realigning the dollar at a value that bears a closer relationship to equilibrium. Leading trade partners, such as West Germany, should be encouraged to take steps to improve their rate of economic growth. Greater liberalization of the Japanese economy and further reductions of barriers to imports to Japan would also serve to funnel liquid monetary resources away from the United States, expand U.S.

exports, and lower the value of the dollar. An effort within the United States to increase personal savings might lessen U.S. reliance on foreign capital inflows as a means to support current levels of U.S. consumption.

Experts consulted by the Commission are of a unaniminous opinion that the Administration needs to take a much stronger and more visable stance to address the damaging impact of the current trade imbalance and the high-valued dollar. It has been suggested that a firm statement by the Administration that the dollar's value be lowered would be sufficient in itself to encourage other nations to cooperate in efforts to realign the dollar. Such a statement might also have a salutory effect on world money markets, if it were anticipated that the United States was serious in proceeding with a program to lower the dollar's value.

The suggestions contained in this letter are provided as encouragement to you to seriously study all options available to the United States in regard to the problem of the high-valued dollar. Such suggestions could indeed provide a possibility of an effective remedy of the problem, if linked to a long-term program to reduce Federal deficits. The Members of the Commission do not pretend to be experts in the field of international monetary policy. Nevertheless, the Commission is expert in matters of agriculture and agricultural trade, and can report to you without equivocation that the high-valued dollar represents a serious threat to U.S. agriculture if left unchecked.

We invite your leadership in this matter and stand ready to support you in any and all initiatives you may undertake to reduce the value of the dollar.

With warmest regards on behalf of the Commission,

Sincerely,

Kenneth L. Bader

Kenneth L. Bader
Chairman

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JIMMY D. MINYARD
EXECUTIVE DIRECTOR
STEVEN A. McCOY
ASSOCIATE DIRECTOR

September 4, 1985

The Hon. E. de la Garza
1301 Longworth HOB
Washington, D.C. 20515

Dear Mr. Chairman:

Members of the National Commission on Agricultural Trade and Export Policy have been monitoring with great interest your Committee's progress on the 1985 Farm Bill.

The Commission is greatly pleased by provisions of the Committee bill which pertain to exports and trade policy, many of which mirror recommendations made by the Commission in its Interim Report to the Congress of March, 1985. In addition, the Commission is generally supportive of the overall thrust of the legislation, which, as the Commission interprets it, is to improve the competitive position of U.S. agriculture in world markets.

The Commission understands that further work by the Committee on the 1985 Farm Bill may be necessary when Congress reconvenes following the August recess. The Commission urges you to maintain, in the bill finally reported by the Committee, the strongest possible provisions for promoting agricultural exports and trade.

The Commission fully accepts that changes in the legislation may be necessary to bring the Committee's bill within guidelines contained in the First Budget Resolution for Fiscal Year 1986. Nevertheless, the Commission strongly feels that adequate resources be included in the bill in the form of export credit and export-PIK, to ensure an appreciable level of government assistance to maintain export markets for U.S. farm goods. Changes in domestic farm policy may result in an improvement in the competitive position of U.S. agriculture. Nevertheless, it is anticipated that the United States will continue to experience difficulties in world markets as a result of unfair competitor practices, slow growth in world demand, and the continued strength of the U.S. dollar. The Commission believes that a

healthy package of export programs will be necessary to counteract these factors. It urges you to consider these needs as you proceed to make the difficult decisions which will be necessary to produce a farm bill that is appropriate both to the problems of agriculture and the need to restrain Federal spending.

Your fellow Commission members extend their respects to you for your fine service to U.S. agriculture.

With warm regards,

Sincerely,

Kenneth L Bader

Kenneth L. Bader

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JIMMY D. MINYARD
EXECUTIVE DIRECTOR
STEVEN A. MCCOY
ASSOCIATE DIRECTOR

September 4, 1985

Honorable Mary Rose Oakar
U.S. House of Representatives
2436 Rayburn House Office Building
Washington, DC 20515

Dear Congresswoman:

The National Commission on Agricultural Trade and Export Policy was established by an Act of Congress in August 1984 to assist Congress and the President in developing appropriate policy for expanding U.S. exports of agricultural commodities and products. The broadly-based Commission was endeavored to keep Congress apprised of consensus opinion within the agricultural community on matters of vital public policy. In that regard, the Commission takes this opportunity to inform you of its views regarding the issue of cargo preference which, as you may know, is currently a topic of major debate in Congress.

For thirty years the United States maritime industry has exploited U.S. agriculture and the nation's taxpayers by means of cargo preference subsidies applied to government-assisted agricultural export programs. Resources ostensibly devoted to feeding the world's starving and malnourished populations have been diverted into the pockets of a handful of American shipowners. $1 billion in such subsidies have been paid to the maritime industry by the U.S. Department of Agriculture (USDA) since 1954. Yet even payments on this scale fail to satisfy the merchant marine. Recently, the maritime lobby has directed its attention to extending cargo preference requirements to other non-food aid commercial export expansion programs.

A February 1985 U.S. District Court ruling subjected the USDA blended credit program of commercial exports to cargo preference law. The additional cost of the subsidy has made the program unworkable. Consequently, the predatory tactics of the maritime lobby have cost U.S. agriculture an additional $500 million in annual lost sales of export commodities.

The U.S. agricultural community opposes the application of cargo preference to U.S. government agricultural export programs. Cargo preference requirements are costly, run counter to government efforts to promote agricultural competitiveness and expand trade, and have failed to achieve their intended purpose. A majority of agricultural interests favor legislation to exempt all government-assisted agricultural export programs from cargo preference law. A minority of such interests fear retribution by the maritime lobby in the event Congress enacts such legislation. Consequently, representatives of a number of farm organizations have entered into negotiations with the maritime industry in an effort to develop a compromise position on cargo preference that "equitably serves both agricultural and maritime interests."

A compromise proposal was endorsed by a number of farm organizations in July 1985. Under the proposal, the percentage of total food aid exports subject to cargo preference would be increased by 50%, in exchange for a legislative exemption for commercial export programs from requirements of cargo preference law. The National Commission on Agricultural Trade and Export Policy strongly opposes this compromise proposal. Agriculture is currently under threat of blackmail by the maritime industry. Agricultural leaders should pursue legislation to achieve nothing less than the total exemption of all government export programs from requirements of cargo preference law.

The Commission strongly supports legislation to this end, including H.R. 1760 by Congressman Bereuter and S. 930 by Senator Nickles. At a minimum, the Commission believes that Congress should enact legislation this year to exempt all non-food aid programs from requirements of cargo preference law. The Commission encourages the Congress to allow both debate and a vote on this issue during the current session.

The issue is one of fairness. U.S. agriculture is currently taking great pains to improve its competitive position in world markets. These efforts are being frustrated by the application of shipping subsidies to support an outmoded and inefficient U.S. merchant marine.

The issue is one of priority. Agricultural exports are an important source of income for the $800 billion agricultural industry of the United States. These exports should not be sacrificed to subsidize the operations of a handful of shipowners and the employees they support.

The issue is one of national policy. Agricultural exports are one bright spot in the nation's serious balance of payments situation. Farm exports totalled $43 billion in 1981. Government-assisted exports of agricultural commodities are the nation's first line of defense against a high-valued dollar and unfair foreign competition. Agriculture's role in support of a revival of U.S. export trade will depend upon a commitment by government to promote sales overseas. This commitment is suspect so long as cargo preference requirements are allowed to continue.

If greater government support for the merchant marine industry is merited, it should be by appropriations to programs administered by relevant agencies and not by the U.S. Department of Agriculture. The cost of such subsidies should require line item budgeting by the Congress, in the Budget Resolution and in Appropriation Acts, and should not be a hidden subsidy submerged within the total budget for the U.S. Department of Agriculture.

The Commission urges you to support its efforts to eliminate the damaging impact of cargo preference once and for all, in the interests of U.S. agriculture and the best possible national policy.

With regards,

Kenneth L. Bader

Kenneth L. Bader
Chairman